

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

Domestic Gas and Electricity (Tariff Cap) Act 2018

Notice of statutory consultation on a proposal to modify the standard conditions of all gas & electricity supply licences

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the standard conditions of all gas and electricity supply licences granted or treated as granted under section 6(1)(d) of the Electricity Act 1989 and section 7A(1) of the Gas Act 1986, pursuant to section 1 of the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('the Act'). These modifications are set out in Appendix 1 and 2.
2. We propose to modify the standard supply conditions, incorporated in supply licences by virtue of section 8 of the Gas Act 1986 or section 8A of the Electricity Act 1989, so that they include conditions ("tariff cap conditions") that impose a cap on all standard variable and default rates that may be charged by the holders of supply licences for the supply of gas or electricity under domestic supply contracts, subject to section 3 of the Act (exemptions from the cap).
3. We are proposing these modifications to protect existing and future domestic customers who pay standard variable and default rates from unjustifiably high prices until the conditions for effective competition are in place. The tariff cap conditions will thereby reduce the amount of annual detriment for these customers, while maintaining incentives for customers to switch and suppliers to compete.
4. These proposed modifications have effect in relation to supply licences, whenever granted, and domestic supply contracts, whenever entered into and:
 - a) set out how the cap is to be calculated;
 - b) make provision specifying how a standard variable or default rate is to be identified;
 - c) make provision requiring information to be provided by holders of supply licences to the Authority for the purposes of exercising functions relating to tariff cap conditions;
 - d) confer functions on the Authority;
 - e) make different provision for different areas and different cases;
 - f) may do any of the things authorised for supply licences by section 7B(5)(a), (6) or (7) of the Gas Act 1986 or section 7(3), (4), (5) or (6A) of the Electricity Act 1989.

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

5. A more detailed description of the reasons and effects of this proposed licence modification can be found in the accompanying document to this statutory consultation, which is available at: <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>. In summary, the main effect of these modifications would be to impose a price cap (calculated in the manner set out in the proposed licence conditions) on rates that may be charged for the supply of electricity and gas to domestic customers that are subject to any form of deemed, evergreen or default tariff/contractual arrangement. The tariff cap conditions would not apply where a domestic customer already benefits from the requirements of condition 28A (the prepayment charge restriction) or where a domestic customer is supplied by a tariff that supports the generation of electricity from renewable sources in relation to which the Authority has issued a direction. The level at which the cap is set would be updated (in the manner set out in the proposed licence conditions) once every six months with the exception of the first and last period, while the tariff cap conditions have effect.
6. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively, you can request a paper copy by emailing library@ofgem.gov.uk.
7. Any representations with respect to the proposed licence modifications must be made on or before Monday, 8 October 2018 to Anna Rossington. Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London E14 4PU, or by email to retailpriceregulation@ofgem.gov.uk.
8. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
9. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

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Rob Salter-Church
Duly authorised on behalf of the
Gas and Electricity Markets Authority

6/9/2018

Appendix 1 – Draft of proposed changes to modify the standard conditions of all electricity supply licences.

Condition 28AD of the electricity supply licence

The proposed modification is to add the text shown below.

Condition 28AD. Regulation of charges for Domestic Customers supplied under certain Domestic Supply Contracts

Requirement to adhere to a Charge Restriction

Overall policy intention

The overall policy intention is to deliver a cap on the prices of default tariffs, in line with the Act. See Chapter 1 of the statutory consultation Overview document for more detail on the policy intention. This is the electricity version of the draft licence condition. We consulted on an early draft of this condition in June, and have taken responses into account, alongside the policy developments outlined in the statutory consultation. Our original draft licence condition was based on the licence drafting for the prepayment price cap (SLC 28A).

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.33, 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

Policy intention

It is intended that this condition would apply the same substantive approach to Single-Register Tariffs to that taken in SLC 28A.

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

Policy intention

It is intended that this condition would apply, as far as possible, the same substantive approach to Multi-Register Tariffs to that taken in SLC 28A.

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

Policy intention

The intention of this paragraph is to reflect the scope set out in the Act. See Chapter 5 of the statutory consultation Overview document.

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

Policy intention

Our intention is that the level of the cap will increase in proportion to consumption and include a fixed standing charge component. See Appendix 1 – Benchmark Methodology.

Compared to SLC28A, an additional subscript has been added to reflect our intention to set separate caps for different payment methods. See Appendix 8 – Payment method uplift.

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

Policy intention

Compared to SLC28A, an additional subscript has been added to reflect our intention to set separate caps for different payment methods. The prepayment uplift has been replaced with a new “payment method adjustment” term to capture this. See Appendix 8 – Payment method uplift.

Compared to the draft condition we consulted on in June we have amended the wholesale, policy cost, and payment method components so that they vary by region. This means that headroom also varies by region. This is to align with our proposal to take regional variations in losses into account see Appendix 2 – Cap level analysis and headroom. We still intend that headroom would not be applied to the network charging component.

We have also added an Earnings Before Interest and Tax Allowance term to reflect our proposal to calculate the EBIT margin each time we update the cap (rather than including it within operating costs). See Appendix 9 – EBIT.

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:

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

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;

$OC_{j,k,l}$ means the Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , calculated in accordance with paragraph 28AD.11;

$PA_{i,j,k,l,p}$ means the Payment Method Adjustment in Charge Restriction Region i , Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p calculated in accordance with paragraph 28AD.12;

$E_{i,j,k,l,p}$ means the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , in Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p , calculated in accordance with paragraph 28AD.13;

$H_{i,j,k,l,p}$ means the Headroom Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p calculated in accordance with paragraph 28AD.14.

Wholesale cost allowance

Policy intention

Our intention is that the level of the cap would be updated with reference to trends in the prices of wholesale contracts for future delivery – calculated using a version of the model used to update the level of the existing safeguard tariffs - and estimates of the trend in capacity market costs. See Appendix 4 – Wholesale costs.

We have amended the approach taken in the licence for this component from that included in our consultation on the draft condition. This is to simplify the condition, and remove unnecessary calculations. We have changed it from calculating an index from the model in Annex 2, to referring directly to the outputs of Annex 2 model. This is the same philosophy as was used for network costs in SLC28A. It should be noted that the Annex 2 model now calculates values by region, to reflect our proposal to factor for losses.

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

Policy intention

Our intention is that an allowance would be included in the cap to reflect the latest network charges, estimated in the same way as under SLC28A. See Appendix 5 – Policy and network costs for full details.

This drafting has not changed substantively from our draft licence condition.

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 28AD.36, 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

Policy intention

Our intention is that the level of the cap would be updated with reference to trends in policy costs (ie the costs of suppliers' environmental and social obligations). We propose to use data from scheme administrators. See Appendix 5 – Policy and network costs for full details.

We have amended this component from that included in our consultation on the draft condition. This is to simplify the condition, and remove unnecessary calculations. We have changed it from calculating an index from the model in Annex 4, to referring directly to the outputs of Annex 4 model. This is the same philosophy as was used for network costs in SLC28A. It should be noted that the Annex 4 model now calculates values by region, to reflect our proposal to factor for losses see Appendix 5 – Policy and network costs.

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.

Operating cost allowance

Policy intention

Our intention is that the allowance in the cap for operating costs would be updated with reference to trends in the CPIH. We would also include an uplift to reflect the expected impact of the smart meter rollout on net costs, relative to the baseline period. See Appendix 3 – Updating the cap methodology.

The majority of this paragraph is unchanged from that included in our consultation on the draft condition. We have amended the smart meter rollout component to (a) reflect our proposal to reflect these costs differently in the standing charge (nil consumption level) versus the standard consumption level (m). (b) separate “pass-through” and “non-pass-through” costs to reflect that we are proposing to update these costs in different ways. (See Appendix 7 – Smart metering costs)

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

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

where:

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

$CPIH_j$ 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 Subsequent 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 Subsequent 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 the Final Charge Restriction Period 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, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17.

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

- the Smart Metering Pass-Through Net Cost Change, which the Authority will, subject to paragraph 28AD.15 and 28AD.16 below, determine and publish semi-annually in accordance with paragraph 28AD.19 and in the format set out in Annex 5; and
- the Smart Metering Non-Pass-Through Net Cost Change, which the Authority will, subject to paragraphs 28AD.15 and 28AD.16 below, 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 not to take effect before the 28AD Charge Restriction Period starting on 1 October 2019; and;
 - otherwise, and following consultation, 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

Policy intention

Our intention is to set a higher level of the cap for standard credit customers, with the uplift partly set as a fixed % of total costs (excluding headroom) - reflecting greater working capital requirements for Standard Credit customers, and partly indexed with reference to CPIH.

We have amended this element from that in the draft licence condition.

The majority of elements of the total costs (excluding headroom) now vary by region, and therefore we have combined the previous three equations into one. We have also included the ability to set a payment uplift for fully interoperable smart meters. These changes reflect our proposals set out in Appendix 8 – Payment method uplift.

We have also moved this section up to recognise that payment method adjustment is an input to the subsequent calculations.

28AD.12 For the purposes of paragraph 28AD.7, 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 and for Payment Method p shall be calculated as follows:

$$PA_{i,j,k,l,p} = \left(PAAC_{0,p} \times \frac{CPIH_j}{CPIH_0} \right) + [PAP_{l,p} \times (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + OC_{j,k,l})]$$

where:

$PAAC_{0,p}$ means the Baseline Value for the Payment Method Adjustment Additional Cost for Payment Method p , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17 or, from time to time and following consultation, and in relation to the Baseline Value for the Fully-Interoperable Smart Prepayment Payment Method only, re-published by the Authority by way of a statement in Writing where it appears to the Authority that it is necessary to amend the Baseline Value for the Fully-Interoperable Smart Prepayment Payment Method.

$PAP_{l,p}$ means the Baseline Value for the Payment Method Adjustment Percentage, 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.17 or, from time to time and following consultation, and in relation to the Baseline Value for the Fully-Interoperable Smart Prepayment Payment Method only, re-published by the Authority by way of a statement in Writing where it appears to the Authority that it is necessary to amend the Baseline Value for the Fully-Interoperable Smart Prepayment Payment Method.

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

$CPIH_0$ has the meaning given to in paragraph 28AD.11.

Earnings Before Interest and Tax Allowance

Policy intention

Our intention is that we will apply the EBIT margin each time we update the cap. This means that we apply the EBIT percentage to the wholesale costs, network costs, policy costs, operating costs and the payment method adjustment, taking into account any changes in these components. (See Appendix 9 – EBIT).

The drafting below is new compared to the draft licence condition we consulted on in June. In our draft licence condition we reflected our policy con proposal to update the EBIT margin component alongside operating costs, and therefore this component was included within the operating cost component.

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:

$$E_{i,j,k,l,p} = EBIT \times (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + OC_{j,k,l} + PA_{i,j,k,l,p})$$

where:

EBIT 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

Policy intention

Our intention is that the headroom allowance should be calculated as a percentage that applies to all elements of costs except the network allowance. Since the wholesale cost, policy cost, and payment method now vary by region, this means that the absolute headroom amount will vary by region. See Appendix 2 – Cap level analysis and headroom.

This is a change from our May policy consultation where we proposed that the headroom allowance would not vary by region. This means that in the previous draft licence condition we split the Payment Method Adjustment into two parts and excluded the component that relates to regional network charges from the headroom calculation.

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:

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

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.

Data sources

Policy intention

In line with the existing safeguard tariffs, we include provision to use alternative data sources to update the level of the cap were any of those set out above no longer available. We also include the ability for Ofgem to amend the methodologies in the Annexes if we consider that (a) there were significant and unanticipated changes in factors determining suppliers' wholesale, policy, networks or smart costs which would cause allowances in the annexes to materially change from the efficient level, looking across the market as a whole, or (b) find an error in any of the models. We had a placeholder for this ability in the draft licence condition in June.

We note that we would not use this mechanism to reopen any other aspects of the cap.

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 or Annex 5 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 or Annex 5 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; or
- (b) there is a typographical or mathematical error in any of Annex 2, Annex 3, Annex 4 or Annex 5 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

Policy intention

The policy intention is that we will publish the final input data for the cap by notice - alongside our final decision – see Chapter 6 of the statutory consultation Overview document.

28AD.17 No later than *[date to be confirmed as part of the final decision]*, 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.

Policy intention

As set out in Appendix 3 – Updating the cap methodology, we propose that the length of the initial period of the cap is shorter than six months. We will publish the cap values for the first period alongside our final decision.

28AD.18 No later than *[date to be confirmed as part of the final decision]*, 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
- (b) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

Policy intention

The policy intention is that we will update the default tariff cap twice a year. Appendix 3 – Updating the cap methodology explains the process we intend to follow.

Since the draft licence condition we consulted on in June, we have removed a paragraph listing the values we would publish. This is because these values are in the Annexes to this licence – which will be published.

28AD.19 For each Subsequent Charge Restriction Period, subject to paragraphs 28AD.20 and 28AD.21, no later than the fifth Working Day of February in relation to a forthcoming 28AD Charge Restriction Period *j* starting on 1 April, or no later than the fifth Working Day of August in relation to a forthcoming 28AD Charge Restriction Period *j* starting on 1 October, the Authority will:

- (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; and
- (b) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

Policy intention

These clauses set out what we are permitted to do if we are unable to obtain the data required to update the cap, or unable to calculate the new values in the set timeperiod. This is the same approach as that taken in SLC 28A.

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 Charge 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 Values 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 values without delay following resolution of the technical issue.

Duration of the Charge Restriction

Policy intention

The following paragraphs are intended to reflect the arrangements set out in the Act for the duration of the cap. This has not changed from our June licence consultation. The intent is that the condition will come into force 56 days after we give notice of our decision.

28AD.22 This condition will come into force on [*date to be confirmed as part of the final decision*] and, subject to this condition automatically ceasing to have effect pursuant to paragraph 28AD.23, will cease to have effect at 23:59 on 31 December 2023.

28AD.23 This condition will automatically cease to have effect 23:59 on 31 December of:

- (a) the year 2020, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(1) of the Act;
- (b) the year 2021, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(2) of the Act; or
- (c) the year 2022, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(3) of the Act.

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

Policy intention

The policy intention is to enable Ofgem to grant a derogation from the cap for tariffs that meet set requirements demonstrating that they support renewable gas production or electricity generation, as permitted in section 3(2)(b) of the Act. We describe this process in Appendix 10 - Exemptions. We had a placeholder for this in our June licence consultation.

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(b).

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 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

Policy intention

The policy intention is to provide a derogation and rebate process for tariffs with low standing charges to allow higher unit rates, if a customer would not pay more than the total cap level (unit and standing charge combined). This would allow suppliers to continue offering tariffs for low consumption customers – see Chapter 2 of the statutory consultation Overview document.

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)

Policy intention

The policy intention is to follow the existing safeguard tariffs and use assumed consumption splits for multi-register tariffs. There would be different arrangements for Economy 7 tariffs and other restricted meter tariffs. See the statutory consultation Overview document.

In the draft licence condition we consulted on in June we had a placeholder for a different approach to be taken for the first Charge Restriction Period to avoid any delays in implementation. We have added this drafting.

- 28AD.34 For the purpose of assessing compliance of Multi-Register Tariffs with the Charge Restriction pursuant to paragraph 28AD.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 28AD.36.
- 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 28AD.36.
- 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.17.

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 28AD.37(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);

‘**Assumed Consumption Split**’ means the assumed percentage consumption split between each rate relevant to a Multi-Register Metering Arrangement, determined pursuant to paragraph 28AD.36;

‘**Baseline Value**’ means the values as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.17 and in the format set out at Annex 1. These are the values of the Baseline Value for the Operating Cost Allowance, the Headroom Allowance Percentage, the Earnings Before Interest and Tax Margin Percentage, the Payment Method Adjustment Additional Cost and Payment Method Adjustment Percentage;

‘**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 168 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;

‘**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 pursuant to 28AD.3 and 28AD.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 [*date to be confirmed as part of the final decision*] and 31 December 2023, either:

- the First Charge Restriction Period;
- a Subsequent Charge Restriction Period beginning on 1 April 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 March of the subsequent calendar year; or
- the Final Charge Restriction Period

‘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;

‘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;

‘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 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 Operating Cost Allowance and the Payment Method Adjustment, in Charge Restriction Region i , 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.13;

‘Earnings Before Interest and Tax Margin Percentage’ means the value, expressed as a percentage and set out in Annex 1, by which the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Operating Cost Allowance and the Payment Method Adjustment is to be multiplied in order to calculate 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 [*date to be confirmed as part of the final decision*] and ending on 31 March 2019;

‘Final Charge Restriction Period’ means the period beginning on 1 October of 2023 and ending on 31 December 2023;

‘Fully-Interoperable Smart Prepayment’ means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter which falls within the definition of Excluded Smart Meter (as defined in condition 28A);

‘Headroom Allowance’ means the amount which is additional to the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Operating Cost Allowance, the Payment Method Adjustment 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 and set out in Annex 1, by which the Wholesale Cost Allowance, the Policy Cost Allowance, the Operating Cost Allowance, the Payment Method Adjustment and the Earnings Before Interest and Tax Allowance is to be multiplied in order to calculate the Headroom Allowance;

‘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 and in the format set out at Annex 1;

‘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;

‘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;

‘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 , which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.11;

‘Other Payment Method’ means any Payment Method that is not Standard Credit or Fully-Interoperable Smart 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, Fully-Interoperable Smart 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 28AD.12;

‘Payment Method Adjustment Additional Cost’ means the amount of additional administrative costs allocated to each Payment Method p , as 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 and as 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 Contact, a Deemed Contract or a 28AD Default Fixed Term Contract;

‘Relevant 28AD Warm Home Discount Customer’ means a Relevant 28AD Customer 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’ means the value 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 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’ 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;

‘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 condition 45.24; 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 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 directly for Charges for Supply Activities after receiving a Bill, such payment 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;

‘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

Operating Cost Allowance

	Single-Rate Metering Arrangement (benchmark consumption per annum, k)		Multi-Register Metering Arrangement (benchmark consumption per annum, k)	
	Nil kWh	m (3,100 kWh)	Nil kWh	m (4,200kWh)
$OC_{0,k,l}$				

Headroom Allowance Percentage

HAP	
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Earnings Before Interest and Tax Margin Percentage

EBIT	
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Payment Method Adjustment Percentage (PAP)

Payment Method p	Single-Rate Metering Arrangement	Multi-Register Metering Arrangement
Standard Credit		
Fully-Interoperable Smart Prepayment		
Other Payment Method		

Payment Method Adjustment Additional Cost

Payment Method p	$PAAC_{0,p}$
Standard Credit	
Fully-Interoperable Smart Prepayment	
Other Payment Method	

Initial Value of the CPIH Index

CPIH ₀	
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Annex 2 – Methodology for determining the Wholesale Cost Allowance

.xls file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>

Annex 3 – Methodology for determining the Network Cost Allowance

.xls file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>

Annex 4 – Methodology for determining the Policy Cost Allowance

.xls file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>

Annex 5 – Methodology for determining the Smart Metering Net Cost Change

.xls file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>

Annex 6 – Format for the publication of Benchmark Maximum Charges

Standard Credit 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>)	
	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>)	
	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				

Fully-Interoperable Smart Prepayment 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>)	
	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

Policy intention

This is a new annex (since the June consultation) to enable customers currently protected by 28AA to be on the direct debit default tariff cap (see Appendix 10 - Exemptions).

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.

Appendix 2 – Draft of proposed changes to modify the standard conditions of all gas supply licences.

Condition 28AD of the gas supply licence

The proposed modification is to add the text shown below.

Condition 28AD. 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 paragraph 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.
- 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:

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

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 ;
$WC_{j,k}$	means the Wholesale Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , calculated in accordance with paragraph 28AD.7;
$NC_{i,j,k}$	means the Network Cost Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , 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;
$OC_{j,k}$	means the Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , calculated in accordance with paragraph 28AD.10;
$PA_{i,j,k,p}$	means the Payment Method Adjustment in Charge Restriction Region i , 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.11;

$E_{i,j,k,p}$	means the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p , calculated in accordance with paragraph 28AD.12;
$H_{i,j,k,p}$	means the Headroom Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.13.

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 , 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 , 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.

Operating Cost Allowance

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

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

where:

$OC_{0,k}$ means the Baseline Value for the Operating Cost Allowance at Benchmark Annual Consumption Level k , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16;

$CPIH_j$ 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 Subsequent 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 Subsequent 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 the Final Charge Restriction Period 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, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

$SMNCC_{j,k}$ is the value of the Smart Metering Net Cost Change in the 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , 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 and in the format set out in Annex 5; and
- the Smart Metering Non-Pass-Through Net Cost Change, which the Authority will, subject to paragraphs 28AD.14 and 28AD.15 below, 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 not to take effect before the 28AD Charge Restriction Period starting on 1 October 2019; and
- otherwise, and following consultation, 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

28AD.11 For the purposes of paragraph 28AD.6, the Payment Method Adjustment 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:

$$PA_{i,j,k,p} = \left(PAAC_{0,p} \times \frac{CPIH_j}{CPIH_0} \right) + [PAP_p \times (WC_{j,k} + NC_{i,j,k} + PC_{j,k} + OC_{j,k})]$$

$PAAC_{0,p}$ means the Baseline Value for the Payment Method Adjustment Additional Cost for Payment Method p , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16 or, from time to time and following consultation, and in relation to the Baseline Value for the Fully-Interoperable Smart Prepayment Payment Method only, re-published by the Authority by way of a statement in Writing where it appears to the Authority that it is necessary to amend the Baseline Value for the Fully-Interoperable Smart Prepayment Payment Method.

PAP_p means the Baseline Value for the Payment Method Adjustment Percentage p , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16 or, from time to time and following consultation, and in relation to the Baseline Value for the Fully-Interoperable Smart Prepayment Payment Method only, re-published by the Authority by way of a statement in Writing where it appears to the Authority that it is necessary to amend the Baseline Value for the Fully-Interoperable Smart Prepayment Payment Method.

$CPIH_j$ has the meaning given to in paragraph 28AD.10.

$CPIH_0$ has the meaning given to in paragraph 28AD.10.

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:

$$E_{i,j,k,p} = EBIT \times (WC_{j,k} + NC_{i,j,k} + PC_{j,k} + OC_{j,k} + PA_{i,j,k,p})$$

where:

$EBIT$ 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:

$$H_{i,j,k,p} = HAP \times (WC_{j,k} + PC_{j,k} + OC_{j,k} + PA_{i,j,k,p} + E_{i,j,k,p})$$

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

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 or Annex 5 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 or Annex 5 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; or
- (b) there is a typographical or mathematical error in any of Annex 2, Annex 3, Annex 4 or Annex 5 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 *[date to be confirmed as part of the final decision]*, 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.17 No later than *[date to be confirmed as part of the final decision]*, 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;
- (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 and 28AD.20, no later than the fifth Working Day of February in relation to a forthcoming 28AD Charge Restriction Period *j* starting on 1 April, or no later than the fifth Working Day of August in relation to a forthcoming 28AD Charge Restriction Period *j* starting on 1 October, the Authority will:

- (a) determine the updated Benchmark Maximum Charges which shall apply for the any forthcoming 28AD 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.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 Charge 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 Values 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 values without delay following resolution of the technical issue.

Duration of the Charge Restriction

28AD.21 This condition will come into force on *[date to be confirmed as part of the final decision]* and, subject to this condition automatically ceasing to have effect pursuant to paragraph 28AD.22, will cease to have effect at 23:59 on 31 December 2023.

28AD.22 This condition will automatically cease to have effect 23:59 on 31 December of:

- (a) the year 2020, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(1) of the Act;
- (b) the year 2021, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(2) of the Act; or
- (c) the year 2022, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(3) of the Act.

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 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);

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

‘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 84 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;

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

‘28AD Charge Restriction Period’ means a period, between *[date to be confirmed as part of the final decision]* and 31 December 2023, either:

- the First Charge Restriction Period;
- a Subsequent Charge Restriction Period beginning on 1 April 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 March of the subsequent calendar year; or
- the Final Charge Restriction Period;

‘Charge Restriction Region’ means a Distribution Services Area;

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

‘CPIH Index’ has the meaning given to it at paragraph 29AD.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;

‘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 , 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 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 Operating Cost Allowance and the Payment Method Adjustment, 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.12;

‘Earnings Before Interest and Tax Margin Percentage’ means the value, expressed as a percentage and set out in Annex 1, by which the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Operating Cost Allowance and the Payment Method Adjustment are to be multiplied in order to calculate 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 [*date to be confirmed as part of the final decision*] and ending on 31 March 2019;

‘Final Charge Restriction Period’ means the period beginning on 1 October of 2023 and ending on 31 December 2023;

‘Fully-Interoperable Smart Prepayment’ means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter which falls within the definition of Excluded Smart Meter (as defined in condition 28A);

‘Headroom Allowance’ means the amount which is additional to the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Operating Cost Allowance, the Payment Method Adjustment 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 and set out in Annex 1, by which the Wholesale Cost Allowance, the Policy Cost Allowance, the Operating Cost Allowance, the Payment Method Adjustment and the Earnings Before Interest and Tax Allowance is to be multiplied in order to calculate the Headroom Allowance;

‘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 and in the format set out at Annex 1;

‘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 , 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;

‘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 which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.10;

‘Other Payment Method’ means any Payment Method that is not Standard Credit or Fully-Interoperable Smart 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, Fully-Interoperable Smart 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 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 , expressed as a percentage and as 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;

‘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 Contact, a Deemed Contract or a 28AD Default Fixed Term Contract;

‘Relevant 28AD Warm Home Discount Customer’ means a Relevant 28AD Customer 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’ means the value 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 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’ 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;

‘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 condition 39.24; 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 directly for Charges for Supply Activities after receiving a Bill, such payment 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;

‘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 , 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

Operating Cost Allowance

	Nil kWh	<i>m (12,000 kWh)</i>
$OC_{0,k}$		

Headroom Allowance Percentage

HAP	
-----	--

Earnings Before Interest and Tax Margin Percentage

EBIT	
------	--

Payment Method Adjustment Percentage & Payment Method Adjustment Additional Cost

Payment Method p	PAP_p	$PAAC_{0,p}$
Standard Credit		
Fully-Interoperable Smart Prepayment		
Other Payment Method		

Initial Value of the CPIH Index

$CPIH_0$	
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Annex 2 – Methodology for determining the Wholesale Cost Allowance

.xls file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>

Annex 3 – Methodology for determining the Network Cost Allowance

.xls file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>

Annex 4 – Methodology for determining the Policy Cost Allowance

.xls file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>

Annex 5 – Methodology for determining the Smart Metering Net Cost Change

.xls file available at <https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-overview-document>

Annex 6 – Format for the publication of Benchmark Maximum Charges

Standard Credit Payment Method

Region, <i>i</i>	Nil kWh	<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		

Other Payment Method

Region, <i>i</i>	Nil kWh	<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		

Fully-Interoperable Smart Prepayment Payment Method

Region, <i>i</i>	Nil kWh	<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.