



Rob Salter-Church
Director - Retail Systems Transformation
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

By email to : RetailPriceRegulation@ofgem.gov.uk

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Dear Rob

Capacity market allowance in the default tariff cap

We write with concern regarding Ofgem's unexpected proposal to remove the Capacity Market (**CM**) Supplier Charge from the April Cap if by 7 February Ofgem "*cannot be confident about the likelihood of suppliers having to pay these charges*" whilst the current "Standstill" of the Capacity Market continues.

Government has made clear it is "*minded to restart collection of the CM Supplier Charge during the standstill period for the purpose of enabling the making of eventual deferred payments to capacity providers*" and that "*suppliers may therefore feel it is sensible to continue to collect money from their customers to fund this charge.*"¹.

Ofgem should therefore have more than sufficient confidence suppliers will pay CM charges, given this is the stated aim of Government and suppliers such as First Utility are indeed setting aside this money.



We do not think it appropriate that the pass through of these costs is delayed, and it is entirely unacceptable that, if reinstated, suppliers may be asked to fund these out of headroom instead.

The Default Tariff Cap places a clear Duty on Ofgem to set the Cap at a level which allows suppliers to finance their activities. Where costs have been consulted upon and agreed as per the Tariff Cap Model, and suppliers are demonstrably paying those costs (which Ofgem could detail via an RFI), Ofgem has a duty to pass those costs through.

We agree that there is some uncertainty regarding how and when Government will collect payments, with the Balancing and Settlement Company (BSC) route potentially taking longer to set up (to March, according to the consultation document). However, if anything this is justification for an increase to the allowance, given then BSC route exposes suppliers to a much higher risk of mutualisation.

¹ Technical amendments to the capacity market: consultation, BEIS, December 2018, [Link](#)

We also recognise that there is a chance, however unlikely, that Government will be unable to collect and pay deferred payments, and suppliers will therefore have benefitted under the Cap. If this is the case, Ofgem could simply set future Caps at a lower rate. This would be a proportionate means of addressing this. Whilst the Open Letter says there is no mechanism for error correction, last week's surprise letter appears to be doing exactly that. It is also incumbent on Ofgem fully to consider the impact of changes in approach, which does not appear to be the case here.

Finally, suppliers plan their tariff mix months in advance. In a world of Fixed Tariffs and Capped Tariffs, unilaterally reducing revenue by a significant sum with only a few weeks notice is highly prejudicial and further damages a supplier's ability to finance their own activities.

Yours sincerely

[not signed]

Natasha Hobday
Group Policy and Regulation Director