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Sent by email to: retailpriceregulation@ofgem.gov.uk

Dear Anna

Default tariff cap: approach to the third cap period

Thank you for the opportunity to comment on Ofgem's proposed approach to non-pass-through Smart Metering Net Cost Change (SMNCC) and Capacity Market (CM) allowances in the third cap period (P3).¹

In summary, we broadly agree with the proposed approach Ofgem sets out as discussed further below in relation to both non-pass-through SMNCC and CM allowances respectively.

Non-pass-through SMNCC

Our position remains as set out in our letter of 30 May 2019 responding to Ofgem's initial consultation on this subject²; we broadly support the proposed roll-over for the October cap providing this is not subject to later clawback that would undermine the smart programme.

We note that Ofgem will continue to consider and consult further separately on its approach to allowances for subsequent cap periods, and that no decision has been taken at this stage. We therefore reserve our rights to comment further as necessary at the appropriate time.

We welcome Ofgem's confirmation that the non-pass-through SMNCC values reported in Table 3 of its previous consultation were incorrectly transposed and should, in fact, be £9.26 for electricity and £11.24 for gas. However, we remain concerned that the derivation of such values lacks transparency due to continuing lack of access to the SMNCC model Ofgem is using, underlining the need for much greater transparency for the substantive review that lies ahead.

¹ https://www.ofgem.gov.uk/system/files/docs/2019/06/default_tariff_cap_june_consultation.pdf

² https://www.ofgem.gov.uk/system/files/docs/2019/06/centrica_april_response.pdf

CM allowance

We agree with Ofgem's substantive conclusion, which is to retain the full CM allowance. As Ofgem notes, the rationale for retaining the CM allowance for P3 is unchanged from the second cap period, and none of the developments noted since Ofgem's February decision change the position.

In relation to the prepayment meter (PPM) cap, we note that the CMA's provisional decision proposes to adopt Ofgem's DTC methodology in respect of CM payments which should, in principle, address the problem Ofgem correctly identifies with the current PPM methodology (that OBR forecasts do not include CM costs due to the standstill). As Ofgem notes, this is currently a matter for the CMA. However, in the event that the CMA does not follow through with its provisional decision in this respect Ofgem will need to have regard to its statutory duties to ensure suppliers can finance their licence obligations.

Yours sincerely

Alun Rees
Director, Retail Market Policy