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

Email: retailpriceregulation@ofgem.gov.uk

Date: 05 August 2020

AUGUST 2020 DEFAULT TARIFF CAP DECISIONS:
NOTE OF COMBINED LICENCE MODIFICATIONS

On 5 August 2020, we published two decisions on modifications of the default tariff cap electricity and gas Standard Licence Conditions ('SLC') 28AD.[1] These were:

- Our decision for reassessing the wholesale allowance in the first default tariff cap period; and
- Our decision for protecting energy consumers with prepayment meters.

Our decisions in these two areas require modification of SLC 28AD of the gas and electricity supply licences. We have published Notices of these modifications to the licence conditions alongside our decision documents.

For a detailed description of our decision on reassessing the wholesale allowance in the first default tariff cap period, please refer to our published documents available here:
https://www.ofgem.gov.uk/publications-and-updates/decision-reassessing-wholesale-allowance-first-default-tariff-cap-period

For a detailed description of our decision on protecting energy consumers with prepayment meters, please refer to our published documents available here:
https://www.ofgem.gov.uk/publications-and-updates/decision-protecting-energy-consumers-prepayment-meters

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[1] On 5 August 2020 we also published our decision on Reviewing smart metering costs in the default tariff cap (https://www.ofgem.gov.uk/publications-and-updates/decision-reviewing-smart-metering-costs-default-tariff-cap)

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For ease of reference, we have set out the combined modifications to SLC 28AD of the gas and electricity supply licences, taking into account our decisions on both policy areas, in Appendix 1 (electricity SLC 28AD) and Appendix 2 (gas SLC 28AD) below.

We have also taken this opportunity to fix some typographical errors in SLC 28AD of the gas supply licence. We outline these changes in Appendix 3.

Since our May 2020 statutory consultations[2], we have made two minor amendments to the modifications (these are highlighted in yellow):

1. We have changed the definition of Prepayment from "a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter or a Smart Meter running in Prepayment Mode" to "a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter or a <u>Smart Metering System</u> running in Prepayment Mode".

2. We have updated the link in Annex 8 to reflect our decision on reassessing wholesale costs in the first cap period. The link now references to our decision document and model, both of which set out our methodology for calculating and implementing the adjustment allowance.

The modifications will take effect from 30 September 2020.

Kind regards

Anna Rossington

Deputy Director, Retail Price Regulation

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[2] Ofgem (2020) – Statutory consultation on reassessing wholesale costs in the firest default tariff cap period (https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-reassessing-wholesale-allowance-first-default-tariff-cap-period)
Ofgem (2020) – Statutory consulatation on protecting energy consumers with prepayment meters (https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-protecting-energy-consumers-prepayment-meters)

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Appendix 1 – Modification to the standard conditions of all electricity supply licences.

We have included the sections of the SLCs we have decided to remove or amend below. Deletions are shown in strike through and new text is double underlined.

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

Calculation of the Benchmark Maximum Charges for 28AD Charge Restriction Periods

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:

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

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;

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$WC_{i,j,k,l}$ 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;

$\underline{AA}_{i,j,k,l,p}$ means the Adjustment 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.10A;

$OC_{j,k,l,\underline{p}}$ means the Operating Cost Allowance 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.11;

$PA_{i,j,k,l,p}$ means the Payment Method Adjustment 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.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.

Adjustment Allowance

28AD.10A For the purposes of 28AD.7, the Adjustment Allowance in 28AD 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 is a sum of adjustments to the default tariff cap, subject to paragraph 28AD.16, calculated in accordance with the methodology set out in Annex 8.

Operating cost allowance

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 and for Payment Method p shall be calculated as follows:

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

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 *CPIHj* 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 *CPIHj* 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 *CPIHj* shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

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- 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.

$SMNCC_{j,k,p}$ is the value of the Smart Metering Net Cost Change in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Payment Method p 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 publish in the format set out in Annex 5 and:

  o 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 to take effect for the 28AD Charge Restriction Period starting on 1 October 2019; and;

  o otherwise, and subject to paragraphs 28AD.15 and 28AD.16 below, 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

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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.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:

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

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 Fully-Interoperable Smart Prepayment 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 Fully-Interoperable Smart Prepayment.~~

$PAP_{l,p}$ 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~~

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~~consultation, and in relation to the Baseline Value for Fully-Interoperable Smart Prepayment 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 Fully-Interoperable Smart Prepayment.~~

$CPIH_j$ 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

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:

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

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

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:

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

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

28AD.16 The Authority may from time to time, and following consultation, amend the methodology set out in Annex 2, Annex 3, ~~or~~ Annex 4, Annex 5 <u>or Annex 8</u> 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 <u>or Annex 8</u> no longer reflects an efficient level of any of the Wholesale Cost Allowance, Network Cost Allowance, Policy Cost Allowance<u>,</u> ~~or~~ Smart Metering Net Cost Change <u>or Adjustment Allowance</u>; or

(b) there is a typographical or mathematical error in any of Annex 2, Annex 3, Annex 4, ~~or~~ Annex 5<u>, or Annex 8</u> such that an amendment is necessary in order to ensure the proper functioning of the relevant methodology.

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Definitions for condition

28AD.40   In this condition:

'Adjustment Allowance' means a sum of adjustments to the default tariff cap, 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, 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 8.

'Benchmark Maximum Charge' means one of ~~168~~ the 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;

~~**'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);~~

'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, 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.11;

'Other Payment Method' means any Payment Method that is not Standard Credit or Prepayment ~~Fully-Interoperable Smart Prepayment;~~

'Payment Method' means:

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(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~~ Prepayment or Other Payment Method; or

(b) in relation to a Relevant 28AD Warm Home Discount Customer, Other Payment Method;

'**Prepayment**' means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter or a Smart Metering System running in Prepayment Mode.

'**Relevant 28AD Warm Home Discount Customer**' means a Relevant 28AD Customer with a payment method of Standard Credit or Other Payment Method, excluding Prepayment, which falls into at least one of the categories listed at Annex 7 to this condition 28AD.

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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	

Earnings Before Interest and Tax Margin Percentage

EBIT	

Payment Method Adjustment Percentage (PAP)

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

Payment Method Adjustment Additional Cost

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

Initial Value of the CPIH Index

$CPIH_0$	

Annex 6 – Format for the publication of Benchmark Maximum Charges

Standard Credit

Region, i	Single-Rate Metering Arrangement (benchmark consumption per annum, k)		Multi-Register Metering Arrangement (benchmark consumption per annum, k)	
	Nil kWh	**m (3,100kWh)**	**Nil kWh**	**m (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				

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Other Payment Method

Region, i	Single-Rate Metering Arrangement (benchmark consumption per annum, k)		Multi-Register Metering Arrangement (benchmark consumption per annum, k)	
	Nil kWh	m (3,100kWh)	Nil kWh	m (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				

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Prepayment

Region, i	Single-Rate Metering Arrangement (benchmark consumption per annum, k)		Multi-Register Metering Arrangement (benchmark consumption per annum, k)	
	Nil kWh	m (3,100kWh)	Nil kWh	m (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				

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Fully-Interoperable Smart Prepayment

Region, i	Single-Rate Metering Arrangement (benchmark consumption per annum, k)		Multi-Register Metering Arrangement (benchmark consumption per annum, k)	
	Nil kWh	m (3,100kWh)	Nil kWh	m (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				

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Annex 8 – Methodology for Adjustment Allowance

.xlsx file available at https://www.ofgem.gov.uk/publications-and-updates/decision-reassessing-wholesale-allowance-first-default-tariff-cap-period

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Appendix 2 – Modification to the standard conditions of all gas supply licences.

We have included the sections of the SLCs we have decided to remove or amend below. Deletions are shown in strike through and new text is double underlined.

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

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:

$$ChargeMax_{i,j,k,p}$$
$$= (WC_{j,k} + NC_{i,j,k} + PC_{j,k} + \underline{AA_{i,j,k,p}} + OC_{j,k,\underline{p}} + \text{—} + PA_{i,j,k,p}$$
$$+ E_{i,j,k,p} + H_{i,j,k,p})$$

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;

$WC_{j,}$ means the Wholesale Cost Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, calculated in accordance with paragraph 28AD.7;

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$NC_{i,j,k}$ 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;

$PC_{j,}$ means the Policy Cost Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, calculated in accordance with paragraph 28AD.9;

$\underline{AA_{i,j,k,p}}$ means the Adjustment Allowance in Charge Restriction Region i, in Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Payment Method p calculated in accordance with paragraph 28AD.10A;

$OC_{j,k,\underline{p}}$ means the Operating Cost Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for payment method p, calculated in accordance with paragraph 28AD.10;

$PA_{i,j,k,p}$ 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;

$E_{i,j,k,p}$ 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.

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Adjustment Allowance

28AD.10A For the purposes of 28AD.6 the Adjustment Allowance in 28AD 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* is a sum of adjustments to the default tariff cap, subject to paragraph 28AD.15, calculated in accordance with the methodology set out in Annex 8.

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* and for Payment Method *p* shall be calculated as follows:

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

where:

$OC_{0,}$ 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:

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$$CPIH \ = \ CPIH_{Jun\ j-1}$$

- 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 $CPIHj$ shall be calculated as:

$$CPIH \ = CPIH_{Dec\ j-1}$$

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 $CPIHj$ shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For the Final Charge Restriction Period the value of $CPIHj$ 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.

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

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- the Smart Metering Non-Pass-Through Net Cost Change, which the Authority will publish in the format set out in Annex 5 and:

  o 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 to take effect for the 28AD Charge Restriction Period starting on 1 October 2019; and

  o otherwise, and subject to paragraphs 28AD.14 and 28AD.15 below, 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 28A<u>D</u>.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:

$$PA_{i,,k,p} = (PAAC_{0,p} \times \frac{CPIH_j}{CPIH_0})$$

$$+ [PAP_p \times (WC_{j,k} + NC_{i,j,k} + PC_{j,k} + \underline{AA_{i,j,k,p}} + OC_{j,k,\underline{p}})]$$

$PAAC_{0,p}$ 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 Fully-Interoperable Smart Prepayment only, re-~~

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~~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 Fully-Interoperable Smart Prepayment.~~

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 Fully-Interoperable Smart Prepayment 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 Fully-Interoperable Smart Prepayment.~~

$CPIH_j$ 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:

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

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

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Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Payment Method p, shall be calculated as follows:

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

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.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 or Annex 8 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 or Annex 8 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 Adjustment Allowance; or

(b) there is a typographical or mathematical error in any of Annex 2, Annex 3, Annex 4, or Annex 5 or Annex 8 such that an amendment is necessary in order to ensure the proper functioning of the relevant methodology.

Definitions for condition

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28AD.33 In this condition:

'**Adjustment Allowance**' means a sum of adjustments to the default tariff cap, 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*, 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 8.

'**Benchmark Maximum Charge**' means one of ~~84~~ the 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;

'~~**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);~~

'**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 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.10;

'**Other Payment Method**' means any Payment Method that is not Standard Credit or Prepayment ~~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~~ Prepayment or Other Payment Method; or

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(b) in relation to a Relevant 28AD Warm Home Discount Customer, Other Payment Method;

'Prepayment' means a Payment Method whereby a Domestic Customer
pays the licensee for Charges for Supply Activities through a Prepayment Meter or a Smart Metering System running in Prepayment Mode.

'Relevant 28AD Warm Home Discount Customer' means a Relevant 28AD Customer with a payment method of Standard Credit or Other Payment Method, excluding Prepayment, which falls into at least one of the categories listed at Annex 7 to this condition 28AD.

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Annex 1 – Format for publishing Baseline Values and Initial Value of the CPIH Index

Baseline Values

Operating Cost Allowance

	Nil kWh	**m (12,000 kWh)**
$OC_{0,k}$		

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~~		
<u>Prepayment</u>		
Other Payment Method		

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Initial Value of the CPIH Index

$CPIH_0$	

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Annex 6 – Format for the publication of Benchmark Maximum Charges

Standard Credit

Region, i	Nil kWh	m (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		

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Other Payment Method

Region, *i*	Nil kWh	*m* (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		

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Fully-Interoperable Smart Prepayment

Region, i	Nil kWh	m (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		

Prepayment

Region, i	Nil kWh	m (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		

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Annex 8 – Methodology for Adjustment Allowance

.xlsx file available at https://www.ofgem.gov.uk/publications-and-updates/decision-reassessing-wholesale-allowance-first-default-tariff-cap-period

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Appendix 3 – Table of modifications to standard conditions of all gas supply licences: correction of typographical errors.

We have included the sections of the SLCs we have decided to remove or amend below. Deletions are shown in strike through and new text is double underlined.

Condition	Alteration	Reason for alteration
28AD.2	in order to comply with paragraph 28A<u>D</u>.2,	To correct a cross-referencing typographical error
28AD.5	ChargeMax(m) and ChargeMax(nil) are defined as described in paragraph 28A<u>D</u>.6.	To correct a cross-referencing typographical error
28AD.7	For the purposes of paragraph 28A<u>D.</u>6	To correct a cross-referencing typographical error
28AD.8	For the purposes of paragraph 28A<u>D.</u>6	To correct a cross-referencing typographical error
28AD.9	For the purposes of paragraph 28A<u>D.</u>6	To correct a cross-referencing typographical error
28AD.10	For the purposes of paragraph 28A<u>D.</u>6	To correct a cross-referencing typographical error
28AD.11	For the purposes of paragraph 28A<u>D.</u>6	To correct a cross-referencing typographical error
28AD.12	For the purposes of paragraph 28A<u>D.</u>6	To correct a cross-referencing typographical error

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Condition	Alteration	Reason for alteration
28AD.12	the Earnings Before Interest and Tax Allowance in Charge Restriction Region i	To correct a typographical error
28AD.13	For the purposes of paragraph 28AD.6	To correct a cross-referencing typographical error
28AD.17	(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; and	To correct a cross-referencing typographical error
28AD.18	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	To correct a cross-referencing typographical error
28AD.33	Charge Restriction' means the obligation set out in paragraph 28AD.2;	To correct a cross-referencing typographical error

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