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

Dear Anthony,

Feed-in Tariffs (FIT) allowance in the default tariff cap

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

We support this review of the FIT allowance in default tariff cap. We agree with the need to ensure that suppliers are able to recover the additional costs related to their obligations under different Government environmental and social programmes. We welcome the proposal to move to using actual FIT costs from price cap period 6 onwards, instead of an outdated OBR forecast.

However, we are concerned that none of the proposed options take account of the significant impact on FIT costs caused by COVID-19. The lockdown has resulted in a large reduction in overall demand and means that suppliers are facing a much higher £/MWh cost for FIT than expected or allowed for in the current price cap. The COVID-19 pandemic has also created significant uncertainty surrounding future levels of demand.

We believe that the move to using actual FIT costs should be accompanied by the use of actual demand, instead of forecast demand, to calculate the £/MWh allowance in the cap. In effect, this would provide a lagged pass-through of FIT costs and would offer protection to consumers and suppliers against the significant uncertainty surrounding demand levels.

Also, the proposal to use FIT annual reports to capture outturn data introduces an unnecessarily long delay in passing through costs. The information required can be sourced in a timelier manner from the quarterly FIT invoices issued by Ofgem, with the annual levelisation impact also captured as an adjustment.

Therefore, we recommend an approach that is an enhanced version of Ofgem's proposal (option 3): from price cap 6 onwards the FIT allowance should be based on outturn costs and demand

with an 18-month lag i.e. the cap for April-21 would be based on outturn data from Oct-19 to Sep-20, with costs adjusted for inflation as appropriate.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning
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