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

Thank you for the opportunity to comment on the above consultation. This response is on behalf of both E.ON and npower.

We do not support any of the options proposed by Ofgem. Option 1 and the proposal for period 6 onwards in Option 3 both result in a two-year lag, which will cause cash flow issues for suppliers. Option 2 is unsatisfactory because, if the default tariff cap continues for one or more years beyond the end of 2020, the allowance will be based on data that becomes more and more out of date. Also none of the options account for any changes in demand.

We propose an alternative solution. Ofgem publishes quarterly reports summarising statistics under the FIT scheme based on information held in the Central FIT Register and the latest quarterly levelisation. We suggest that Ofgem could use the latest four quarterly reports available and take the total costs, total electricity supplied and total Energy Intensive Industries (EII) demand from these reports and calculate a rate as follows:

- Costs for each of the quarters would be uplifted by the appropriate RPI.
- The exempt supply to EII for those quarters would be subtracted from the total electricity supplied in those four quarters.
- The annual Green Excluded Energy (GEE) cap would then be subtracted for the current FIT year to calculate the total demand.
- The rate would then be calculated by dividing the annual adjusted cost by the annual total demand.

The benefits of this methodology are that it reduces lag to one year and accounts for variance in demand (e.g. COVID-19) as well as costs.

The calculation for a summer period would look like this:

$$\text{Cost FYr}_n = (\text{Q1 Cost FYr}_{n-1} + \text{Q2 Cost FYr}_{n-1}) \times \text{RPI}_{n-1/n} + (\text{Q3 Cost FYr}_{n-2} + \text{Q4 Cost FYr}_{n-2}) \times \text{RPI}_{n-2/n}$$

$$\text{Demand FYr}_n = (\text{Q1 Elec Supplied FYr}_{n-1} - \text{Q1 EII FYr}_{n-1}) + (\text{Q2 Elec Supplied FYr}_{n-1} - \text{Q2 EII FYr}_{n-1}) + (\text{Q3 Elec Supplied FYr}_{n-2} - \text{Q3 EII FYr}_{n-2}) + (\text{Q4 Elec Supplied FYr}_{n-2} - \text{Q4 EII FYr}_{n-2}) - \text{GEE Cap FYr}_n$$

$$\text{Rate FYr}_n = \text{Cost FYr}_n / \text{Demand FYr}_n$$

The calculation for a winter period would be as follows:

$$\text{Cost FYr}_n = (\text{Q1 Cost FYr}_{n-1} + \text{Q2 Cost FYr}_{n-1} + \text{Q3 Cost FYr}_{n-1} + \text{Q4 Cost FYr}_{n-1}) \times \text{RPI}_{n-1/n}$$

$$\text{Demand FYr}_n = (\text{Q1 Elec Supplied FYr}_{n-1} - \text{Q1 EII FYr}_{n-1}) + (\text{Q2 Elec Supplied FYr}_{n-1} - \text{Q2 EII FYr}_{n-1}) + (\text{Q3 Elec Supplied FYr}_{n-1} - \text{Q3 EII FYr}_{n-1}) + (\text{Q4 Elec Supplied FYr}_{n-1} - \text{Q4 EII FYr}_{n-1}) - \text{GEE Cap FYr}_n$$

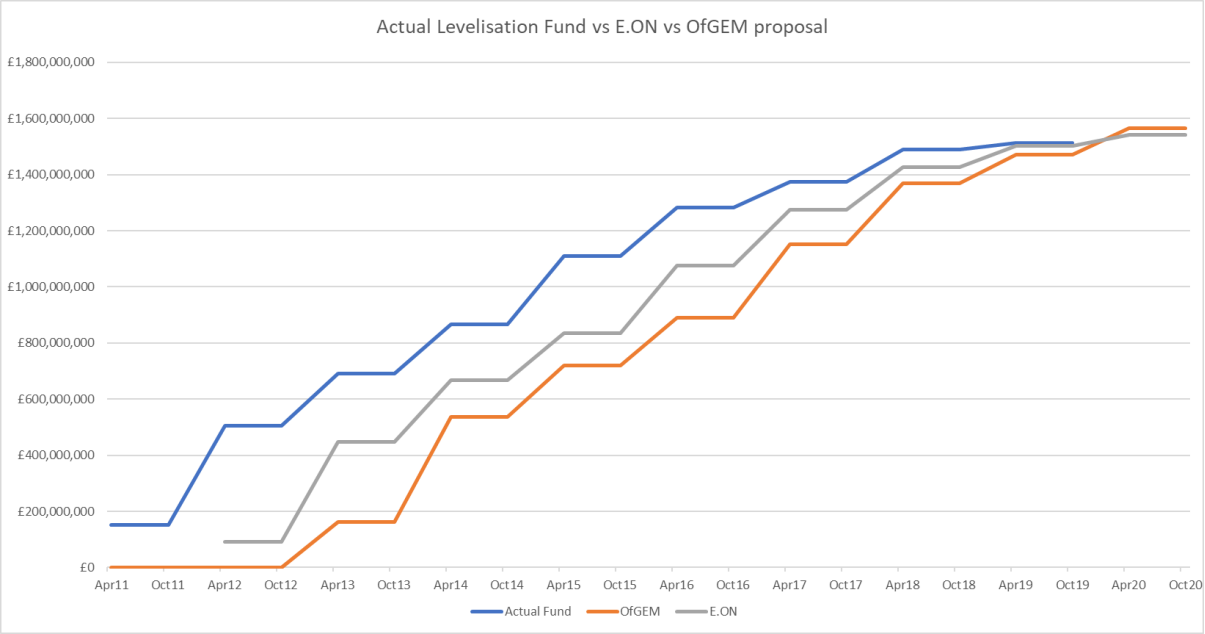
$$\text{Rate FYr}_n = \text{Cost FYr}_n / \text{Demand FYr}_n$$

Key

FYr = FiT year

n = Current FiT year number

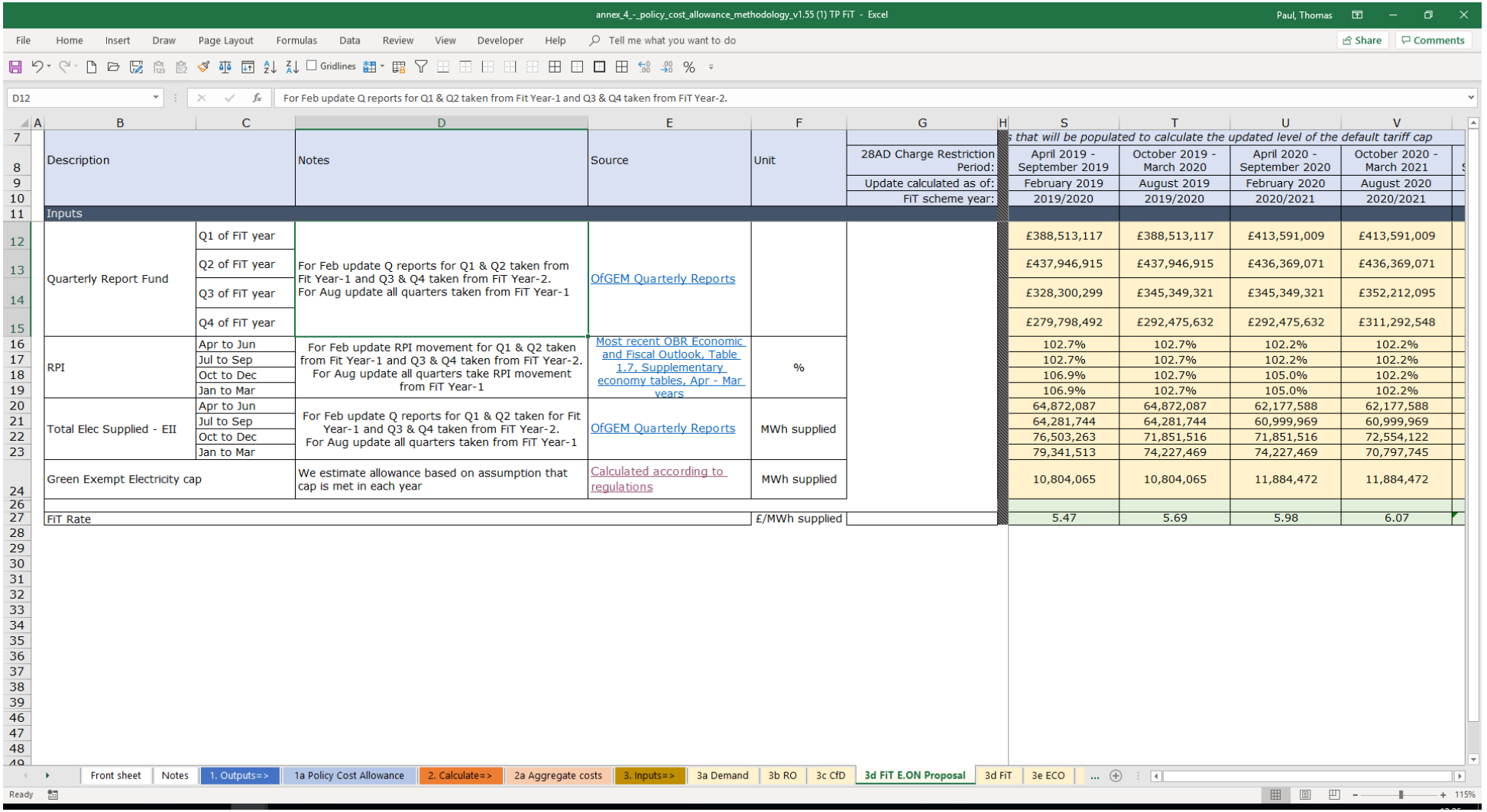
The following chart shows the comparison of this option against Ofgem's preferred option.



As you can see, our proposed methodology reduces the lag and therefore the costs are likely to be closer to actual costs.

Overleaf you will see how we believe this methodology should be represented in Annex 4 – policy cost allowance methodology.

We hope Ofgem will seriously consider our proposal and consult again for stakeholders to comment.



	Description		Notes	Source	Unit	28AD Charge Restriction Period:	April 2019 - September 2019	October 2019 - March 2020	April 2020 - September 2020	October 2020 - March 2021
						Update calculated as of:	February 2019	August 2019	February 2020	August 2020
						FiT scheme year:	2019/2020	2019/2020	2020/2021	2020/2021
	Inputs									
	Quarterly Report Fund	Q1 of FiT year	For Feb update Q reports for Q1 & Q2 taken from Fit Year-1 and Q3 & Q4 taken from FiT Year-2. For Aug update all quarters taken from FiT Year-1	OfGEM Quarterly Reports			£388,513,117	£388,513,117	£413,591,009	£413,591,009
		Q2 of FiT year					£437,946,915	£437,946,915	£436,369,071	£436,369,071
		Q3 of FiT year					£328,300,299	£345,349,321	£345,349,321	£352,212,095
		Q4 of FiT year					£279,798,492	£292,475,632	£292,475,632	£311,292,548
	RPI	Apr to Jun	For Feb update RPI movement for Q1 & Q2 taken from Fit Year-1 and Q3 & Q4 taken from FiT Year-2. For Aug update all quarters take RPI movement from FiT Year-1	Most recent OBR Economic and Fiscal Outlook, Table 1.7, Supplementary economy tables, Apr - Mar years	%		102.7%	102.7%	102.2%	102.2%
		Jul to Sep					102.7%	102.7%	102.2%	102.2%
		Oct to Dec					106.9%	102.7%	105.0%	102.2%
		Jan to Mar					106.9%	102.7%	105.0%	102.2%
	Total Elec Supplied - EII	Apr to Jun	For Feb update Q reports for Q1 & Q2 taken for Fit Year-1 and Q3 & Q4 taken from FiT Year-2. For Aug update all quarters taken from FiT Year-1	OfGEM Quarterly Reports	MWh supplied		64,872,087	64,872,087	62,177,588	62,177,588
		Jul to Sep					64,281,744	64,281,744	60,999,969	60,999,969
		Oct to Dec					76,503,263	71,851,516	71,851,516	72,554,122
		Jan to Mar					79,341,513	74,227,469	74,227,469	70,797,745
	Green Exempt Electricity cap		We estimate allowance based on assumption that cap is met in each year	Calculated according to regulations	MWh supplied		10,804,065	10,804,065	11,884,472	11,884,472
	FiT Rate				£/MWh supplied		5.47	5.69	5.98	6.07