

Centrica plc  
Regulatory Affairs  
Lakeside House  
30 The Causeway  
Staines  
Middlesex  
TW18 3BY  
[www.centrica.com](http://www.centrica.com)

Anna Rossington  
Deputy Director  
Retail Systems Transformation  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

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By email to: [Retailpriceregulation@ofgem.gov.uk](mailto:Retailpriceregulation@ofgem.gov.uk)

Dear Anna

## **Statutory consultation on reassessing the wholesale allowance in the first default tariff cap period<sup>1</sup>**

Centrica welcomes Ofgem's recognition, following the High Court's decision in November 2019<sup>2</sup>, that the wholesale allowance for the first cap period was indeed too low, and that an adjustment to the Default Tariff Cap (DTC) is necessary to remedy material error in Ofgem's original decision. Our principal concern with the approach signalled in Ofgem's initial consultation was that the proposed methodology was not appropriately focused on hedging costs for Q1 2019 as it should have been.

Ofgem's initial approach to modelling Winter 18/19 would have included hedging volumes for Q4 2018 - a period before the DTC came into effect. Hedging strategies logically follow the pricing regime in place for the relevant delivery period. Modelling an average of Q4 2018 and Q1 2019 was therefore bound to misrepresent hedging costs for Q1 2019, and it is perfectly possible to isolate Q1 while maintaining consistency with wider treatment of seasonal variation across summer and winter cap periods. It is reassuring to see that Ofgem has now recognised these points.

We remain concerned, however, that Ofgem maintains that it is appropriate to consider hedging costs for summer 2019, although ultimately it does not propose any retrospective adjustment on grounds of materiality. For the record, we continue to reject Ofgem's characterisation of its approach to wholesale costs in the second cap period (as set out in its November 2018 decision) as having anything to do with suppliers' actual costs or the 'transition problem'. Ofgem did not believe there was an under-recovery on average in the first cap period when it set the wholesale allowance for the second cap period. So it is irrational that – in making a

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<sup>1</sup>

[https://www.ofgem.gov.uk/system/files/docs/2020/05/reassessing\\_the\\_wholesale\\_allowance\\_in\\_the\\_first\\_cap\\_period\\_may\\_2020\\_consultation.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/05/reassessing_the_wholesale_allowance_in_the_first_cap_period_may_2020_consultation.pdf)

<sup>2</sup> <https://www.bailii.org/ew/cases/EWHC/Admin/2019/3048.html>

correction to achieve the position Ofgem had always intended – it now thinks the second cap period can be reopened. Centrica agrees that Ofgem should not make any adjustment in relation to the second cap period, but that view does not depend on materiality – rather it follows from the fact that there is no lawful basis for opening the assessment of the allowance for cap period two.

As noted in our response to Ofgem's initial consultation, it is regrettable that Ofgem is proposing not to adjust for declining customer numbers as this will mean that suppliers will have lost out on earning the funds necessary to support their businesses as a direct result of Ofgem's error. However, at this stage, given the urgent need to conclude this matter and apply an appropriate adjustment for the next cap period, we do not comment further on Ofgem's proposals or the reasoning advanced to support them, save to confirm that we stand by the position previously communicated to Ofgem.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tim Dewhurst', written in a cursive style.

Tim Dewhurst  
**Regulatory Affairs Director**