Making a positive difference
for energy consumers

All stakeholders

Email: RetailPriceRegulation@ofgem.gov.uk

Date: 02 February 2021

Dear stakeholder,

Decision: Feed-in Tariffs (FIT) scheme allowance methodology in the default tariff cap

This letter sets out our decision on how to determine the Feed-in Tariff ("FIT") scheme allowance methodology in the default tariff cap ("cap"), from cap period six (April 2021 - September 2021) onward. As explained in detail below, we have decided to change our methodology to use FIT scheme costs and demand on a 18-month lagged basis and uprate the scheme costs by the Retail Price Index (RPI) inflation to estimate costs in the upcoming period. This is a change from our November 2020 proposal, in response to supplier feedback. We have published the revised 'Annex 4 - Policy cost allowance methodology' of Standard Licence Condition (SLC) 28AD of the electricity and gas standard supply licence conditions, which reflects this decision alongside this letter.[1]

In reaching our decision, we have considered feedback from suppliers. Annex 1 sets out our considerations in response to supplier views.

Background

The cap includes a policy cost allowance to ensure that suppliers are able to recover the additional costs related to their obligations under different Government environmental and social programmes. There are currently six policy schemes in operation which are accounted for in this allowance, one of which is the FIT scheme.

When we designed the cap we decided[2] to base the FIT allowance on the latest Office for Budget Responsibility (OBR) estimates of total scheme costs, divided by a forecast of total

[1] The revised Annex 4 published alongside this letter also includes the changes made from the decision on updating the allowance for the Shetland Cross Subsidy in the default tariff cap
[2] Ofgem (2018), Default Tariff Cap: decision overview. https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-decision-overview

supply volumes for the given scheme year from the Department for Business, Energy & Industrial strategy (BEIS). The total supply volume excludes the capped amount of exempt renewable electricity sourced from outside of the UK – and also excludes the forecast Energy Intensive Industry (EII) volumes.

In December 2019, the OBR published a 'Restated March 2019 forecast' of its 'Economic and fiscal outlook' publication[3] that provided its decision to exclude FIT schemes from their forecast, and to stop anticipating their future classification in the public finances.

Consultation process

In June 2020, we consulted[4] on options to address the OBR's decision to no longer publish a forecast of FITs costs. Following stakeholder responses, we decided in August 2020 to make no change to the methodology for cap period five. We stated that we would consult on the methodology for the FIT scheme allowance from cap period six.

In our September 2020 consultation[5] on the potential impact of COVID-19 on the default tariff cap, we discussed the impact COVID-19 had on supplier FIT scheme costs. We flagged that we would be consulting separately on the new FIT scheme methodology.

In the November 2020 consultation we proposed to use a pass-through of FIT scheme costs and demand on an 18-month lagged basis. We also proposed to continue using the levelisation fund as the measure of the net FIT scheme costs and to not inflate the costs.[6]

Stakeholders' comments

All the suppliers that responded said that our proposed approach would under recover costs in future cap periods and that we should reconsider our proposal to not include inflation. Two suppliers said that the RPI was the appropriate inflation metric to use to estimate costs in a future cap period given that FIT tariffs are indexed by RPI annually. Both suppliers also said that using the levelisation fund[7] as the FIT scheme cost input would understate costs as deemed exports would be double counted. Two suppliers recommended a forecast and an annual true-up of costs to ensure cost reflectiveness. Another supplier also said we

[3] Office for Budget Responsibility (2019), Economic and fiscal outlook – March 2019. https://obr.uk/efo/economic-fiscal-outlook-march-2019/
[4] Ofgem (2020), Consultation on changes to the Feed-in Tariffs allowance in the default tariff cap. https://www.ofgem.gov.uk/publications-and-updates/consultation-letter-changes-feed-tariffs-allowance-default-tariff-cap
[5] Ofgem (2020), Reviewing the potential impact of COVID-19 on the default tariff cap: September 2020 policy consultation https://www.ofgem.gov.uk/publications-and-updates/reviewing-potential-impact-covid-19-default-tariff-cap-september-2020-policy-consultation
[6] Ofgem (2020), Reviewing the potential impact of COVID-19 on the default tariff cap: November 2020 consultation https://www.ofgem.gov.uk/publications-and-updates/reviewing-potential-impact-covid-19-default-tariff-cap-november-2020-consultation
[7] Refer to Annex 2 for a description of all inputs, including levelisation fund.

should consider maintaining the assumption that the cap on renewable electricity sourced from outside the UK is breached for each scheme year.

We provide more detail on supplier comments along with our considerations in Annex 1.

Decision

We want the policy cost allowance in any period to reflect the expected cost of the FIT scheme in that period. We have therefore decided not to adopt our proposed pass-through of historic, reported costs. Instead, as recommended by suppliers, we have decided to use the historic costs to calculate the expected FIT costs in the upcoming period, since this is the best data available.

We have decided to use FIT scheme costs and demand on an 18-month lagged basis, but to uprate the costs by RPI inflation to reflect the fact that FIT scheme tariffs are subject to this inflation each year. We consider that demand is reasonably constant (except for the impacts of COVID-19, which we discuss below), and that therefore using a historic demand is a reasonable basis for setting the expected costs in the forthcoming period.

We consider it is appropriate to uprate the costs by RPI inflation in this instance after considering the responses to the consultation. This is because the tariff rates for the FIT scheme increase by RPI inflation every year. Therefore, we consider that uprating by RPI inflation will provide suppliers with a suitable allowance for the FIT scheme they will incur in each cap period.

We have decided to assume that the cap on exempt renewable electricity sourced from outside the UK ("exempt renewable electricity") is breached in each quarter of a scheme year in response to supplier feedback. This is a change from our proposed methodology which was to take the minimum of the actual quarterly reported exempt level and the exempt cap level in the given quarter. There is considerable variation between the volumes of exempt renewable electricity reported quarterly and those reported in the annual report. While the exempt cap has been breached in every scheme year, some of the quarterly reports do not show this. Therefore, relying on the quarterly reports would lead to a higher demand volume (MWh) than it is actually the case. If the total FIT scheme cost was divided by this demand, it would lead to a FIT allowance that was lower than the scheme costs suppliers face. Therefore, we consider this change to be appropriate to better reflect the FIT scheme costs faced by suppliers.

We have decided to continue to use the levelisation fund as our input for FIT scheme costs despite supplier recommendations to consider adding the value of deemed exports. While we agree with suppliers that some of the benefits of deemed exports may be captured by

distribution network owners through their methodologies on non-technical losses, [8] we consider that it is unlikely that they include all of the benefits, given their wider scope and review periodicity (every two years). Adding all of the deemed exports to our calculations would risk having a cap that is too high. Given the objective of the Domestic Gas and Electricity (Default Tariff cap) Act 2018 ("The Act") is to protect customers, we consider it more appropriate at this stage to continue to use the levelisation fund as our input for the FIT scheme costs. We may re-consider this position in future if more evidence becomes available to us.

We also do not consider that we need to add the value of deemed exports to the levelisation fund to avoid double-counting the benefits as a result of the GSP Group Correction Factor (GGCFs). [9] This is because our calculation of demand for the wholesale energy allowance is not adjusted by this factor. Therefore, we do not consider that there is any double-counting.

We consider that our approach will enable suppliers to reflect the impact that COVID-19 had on its FIT costs. While we stated above that demand is reasonably constant, this is not the case during the COVID-19 pandemic. We recognise that the decrease in total system demand as a result of COVID-19 has had an impact on the demand used to calculate the FIT costs on a £ per MWh basis. This resulted in an increased FIT cost to suppliers, which was not captured in our current methodology given that our methodology relies on pre-COVID-19 demand forecasts. Continuing to use an estimate of demand in our methodology for future cap periods would result in the COVID-19 impacts also not being reflected in any future cap periods. Our decision to use demand on an 18-month lagged basis will enable the cap to reflect the impact that COVID-19 had on demand and, as a consequence, the FIT scheme costs.

Further details of our methodology can be found in Annex 2.

Yours faithfully,

Anna Rossington
Interim Director, Retail

[8] Elexon (2020) BSCP128: BSC Procedure Production, Submission, Audit & Approval of Line Loss Factors. https://www.elexon.co.uk/documents/bsc-codes/bscps/bscp128-3/
[9] GSP Group Correction Factors (GGCFs) are used to ensure that the total energy allocated to Suppliers in each Settlement Period in each GSP Group matches the energy entering the GSP Groups from the transmission system, adjoining GSP Groups and through embedded generation. Elexon (2020), Guidance on GSP Group Correction. https://www.elexon.co.uk/operations-settlement/trading-settlement/gsp-group-correction-factors/

Annex 1: Considerations of stakeholder views

We received six responses to the consultation. We have uploaded non-confidential responses to our website.

All six responses were from suppliers. They raised concerns that the proposal will under recover costs for remaining years of the default tariff cap and may exacerbate the under recovery of costs due to COVID-19 in the summer of 2020. We have provided a high-level summary of the main themes highlighted by respondents, and we set out our response to these themes below.

Forecast or pass-through methodology

November 2020 proposals

In our November 2020 FIT consultation, we set out our proposals to set the allowance for each cap period as a pass-through methodology of costs on an 18-month lagged basis. We did not propose uprating historical costs by inflation as we considered that we were allowing the recovery of historical costs through a pass-through mechanism. We also considered that suppliers had already received an allowance for that period, minimising the need to incorporate inflation in the allowance, and noted that the result was likely to be immaterial and not justify the extra complexity.

Stakeholder responses

Most suppliers broadly agreed with our proposal to use costs and demand from a historical period to set a future allowance. However, all suppliers disagreed with our proposal to not include inflation and noted that this would lead to the under recovery of costs for future allowances.

Two suppliers disagreed that the methodology should be a lagged pass-through of costs and said that an adjustment for inflation is necessary to ensure that outturn costs are converted into an appropriate forecast of costs in the relevant cap period. They highlight that FIT tariffs are indexed annually by RPI inflation and this needs to be accounted for in our methodology to ensure that costs are appropriately uplifted in the forecast.

One of the suppliers also said that we have confused the time value of money with inflation. They note that although the allowance is calculated based on costs incurred in a prior period (referred to as a lagged basis), it is not correct to regard the amount received via the cap as being a lagged payment for the actual costs incurred in the prior period.

They note that this can easily be understood if one considers the final period of the price cap, given costs incurred in that period cannot be recovered in future periods.

Considerations

In principle, we do not consider that the cap allowance needs to match the costs in every charge restriction period. Therefore, it is appropriate in some instances to allow a pass-through of historical costs. In this instance, however, we agree with suppliers that we can use the historical outturn FIT costs to estimate costs in an upcoming cap period. We also consider that this approach enables us to incorporate the impact of the COVID-19 pandemic on the scheme as we transition between methodologies. We set out our reasoning in our decision section above.

Inflation metric

November 2020 proposals

In our November 2020 consultation we did not propose to uprate any costs by inflation. However we said that if we were to uprate by inflation, we considered that Consumer Prices Index including owner occupiers' housing costs (CPIH) would be the appropriate inflation metric to use as it is consistent with the inflation index used in other areas for the cap (i.e. operating costs).

Stakeholder responses

Two suppliers disagreed with our proposal to use CPIH inflation. They said the reason for including inflation is that FIT tariffs are indexed to inflation, using RPI.

Both suppliers said that there was no reason why the same index should be used for operating costs and FIT, given the different contexts. One supplier also noted that we use different measures of inflation throughout the price cap methodology, with the clear intent in their view that in each instance the appropriate measure of inflation is used for each element. It also highlighted that the FIT scheme tariffs, in line with supply licence condition 33, increase each year by RPI and concluded on that basis RPI is the appropriate inflation measure to convert historic outturn costs into an appropriate forecast of costs in the relevant price cap period.

Considerations

The suppliers' concerns and recommendation were provided in the context of our November 2020 proposed methodology, where we were treating the FIT scheme costs as a pass-though, rather than estimating the cost for the upcoming cap period.

FIT rates are calculated annually by Ofgem. They are calculated by multiplying the previous scheme years FIT rates by RPI inflation. Our decision is to estimate the costs for the current charge restriction period. Therefore, we agree with suppliers to do this, we should inflate historical costs using RPI.

We note that we continue to consider that CPIH is the appropriate measure of inflation to use generally in the cap. As we noted in our November 2020 consultation, the Office for National Statistics discourages the use of RPI as a measure of inflation, and instead recommends the use of the CPIH.

Cost input: Levelisation fund or amount levelised across licensees

FIT payments made by suppliers to domestic customers with small scale renewable technologies comprise of two separate tariffs:

- Generation tariff: A payment per unit of electricity generated.
- Export tariff: A payment per unit of electricity exported to the grid.

The majority of FIT installations do not have an export meter. It is assumed that half of the electricity generated is exported back to the grid, known as 'deemed exports'.

The total value of deemed export to the licensees is defined as the amount of electricity deemed to have been exported by all accredited installations multiplied by the System Sell Price (SSP) for the annual period. The SSP is a proxy for the wholesale market price.

The levelisation fund (£) represents an estimate of the net cost to suppliers. It is calculated as the sum of all FIT scheme costs (£) to suppliers (generation payments, deemed export payments, metered export payments, qualifying costs) minus the value of deemed and metered exports (£).[10]

November 2020 proposals

We proposed in our November 2020 consultation to continue to use the levelisation fund as the input for FIT scheme costs in our methodology.

Stakeholder responses

Two suppliers disagreed with using the levelisation fund to represent the cost to suppliers from the FIT scheme given that in their view it double counted the benefit of deemed

[10] Please refer to Annex 2 for a full description of all inputs used in our methodology.

exports with other areas of the cap. Both recommended that we should add the value of deemed exports to the levelisation fund and use this as our FIT scheme cost input.

One supplier said that deemed exports will reduce the level of non-technical losses[11] on the electricity system and as such will be reflected in the industry loss factors published by Distribution Network Operators (DNOs). It highlighted that the Balancing and Settlement Code (BSCP 128) sets out obligations on DNOs to submit loss factors using an approved methodology, which must comply with the principles set out in the BSCP – including the principles that generic loss factors shall account for all losses (technical and non-technical) and shall be re-calculated at least every two years.

It said that for the purpose of the price cap methodology, it is important to recognise that these published loss factors are also used to uplift the typical consumption values to derive the purchase volumes on which the wholesale allowance is based. Therefore, by using the latest approved industry loss factors the price cap methodology already reduces the volumes suppliers need to purchase, and so the level of the price cap, in a way which captures the benefit of the deemed FIT exports.

One supplier said that deemed exports from FIT installations should reduce the required import from each grid supply point (GSP) needed to meet metered demand. It noted that this will in turn impact the group correction factor[12] and result in a lower wholesale cost to all suppliers being served by that GSP (regardless of how many FIT installations they have). The supplier noted that this saving could be accounted for in different aspects of an individual supplier's costs. For example, it noted that if a supplier purchased volumes based on expected demand without adjusting for deemed export, it would incur a negative imbalance charge in respect of the surplus energy.

The supplier also said that they are not aware of an adjustment made to wholesale costs in the cap for the value of deemed exports and if no allowance has been made in the wholesale cost methodology then we need to reinstate this amount in the FIT allowance.

Considerations

We do not consider it appropriate to add deemed exports to the FIT cost estimate. There is significant uncertainty about the extent to which the industry methodologies cited would capture the FIT deemed exports. If we added deemed exports to our FIT cost estimate

[11] Elexon (2020) BSCP128: BSC Procedure Production, Submission, Audit & Approval of Line Loss Factors. https://www.elexon.co.uk/documents/bsc-codes/bscps/bscp128-3/

[12] GSP Group Correction Factors (GGCFs) are used to ensure that the total energy allocated to Suppliers in each Settlement Period in each GSP Group matches the energy entering the GSP Groups from the transmission system, adjoining GSP Groups and through embedded generation. Elexon (2020), Guidance on GSP Group Correction. https://www.elexon.co.uk/operations-settlement/trading-settlement/gsp-group-correction-factors/

there is a risk that we would overstate the costs. We do not consider that this would protect customers.

We recognise that in theory at least some of the FIT deemed export may be captured by the DNOs in their methodologies for calculation of generic non-technical losses. However, the DNO non-technical losses reflect a wide-range of impacts on the DNO network and demand for electricity.[13] Therefore, it is unlikely that the methodology would fully captures the benefit of the FIT. As a result, we consider that reinstating the deemed exports because of the BSCP methodology would likely lead to overstated costs. Given the objective of the Act to protect customers, we do not consider that, at this stage, it would protect customers to add a likely overestimation of costs to the cap.

We agree that any residual impact of deemed exports would be taken into account in Grid Supply Point Group Correction Factors (GGCFs). However, we do not consider that this leads to double counting of the benefits. We noted in our 2018 decision that we did not take into account group correction factors in the cap.[14] This is because the demand we use in the cap is based on profiles from Elexon. Those demand profiles are not corrected by the GGCFs. This provides a higher wholesale market allowance to suppliers than otherwise would be the case. In this way, our proposal to account for this added benefit in the FIT scheme costs is appropriate as it is not double-counted in the GGCFs.

Forecast and true-up FIT methodology

Stakeholder responses

Two suppliers said that our proposed methodology would under-recover costs for the remainder of the cap and an alternative option would be to use a forecast and an annual true-up of costs to ensure cost reflectiveness.

Considerations

The supplier concerns and recommendation were provided in the context of our November 2020 proposed methodology. We have decided to use a revised methodology, which we consider will address the supplier concerns relating to cost under-recovery without the need for an ex post assessment and true up. We do not consider that an annual true-up is a practical or proportionate solution. The scheme closed to new applicant on 1 April 2019 but

[13] For example Elexon's guidance recommends a top-down approach of calculating the difference between units entering and leaving the system for generic non-technical losses. Elexon (2020) BSCP128: BSC Procedure Production, Submission, Audit & Approval of Line Loss Factors. https://www.elexon.co.uk/documents/bsc-codes/bscps/bscp128-3/

[14] Ofgem (2018) Appendix 5 – Policy and network costs, paragraph 3.4 onwards . https://www.ofgem.gov.uk/system/files/docs/2018/11/appendix_5_-_policy_and_network_costs.pdf

was subject to extensions due to COVID-19.[15] The growth in capacity of the FIT scheme has significantly slowed down and has stabilised. We consider that any additional capacity added at this stage will be marginal in comparison to the overall scheme size. This means that the difference between the estimate under our new methodology and actual outturn costs are likely to be immaterial and will likely balance out over time. [16]

Exempt renewable electricity sourced from outside of the UK

The FIT scheme provides an exemption for renewable electricity sourced from outside of the UK.

Ofgem also set a cap for the exempt renewable electricity sourced from outside the UK. This was set in 2016/2017 and increases by 10% in each scheme year. This means in the FIT annual report Ofgem calculate the exempt supply for renewable electricity sourced outside the UK by taking the minimum of the actual level and the cap level.

The FIT scheme methodology used in the first five cap periods used forecast costs (£) and forecast demand (MWh) to set a FIT allowance (£/MWh). The forecast demand we use in this calculation assumes the cap will be breached in the following scheme year and subtracts this cap level from the total electricity supplied.

November 2020 proposals

In our November 2020 consultation we proposed to move towards using actual costs and demand on an 18-month lagged basis that was sourced from quarterly FIT reports. A by-product of moving towards using historical quarterly reported figures was the proposal to consider the reported actual level of exempt renewable electricity sourced from outside the UK. We proposed to take the minimum of the actual reported total exempt electricity sourced from outside the UK and the exemption cap, rather than just assuming that the cap would be breached in each quarter.

Stakeholder responses

One supplier said that our proposed methodology would lead to cost under recovery and that we should consider maintaining the assumption that the cap on renewable electricity sourced from outside the UK is breached for each scheme year.

[15] Ofgem (2020), Changes to the FIT scheme. https://www.ofgem.gov.uk/environmental-programmes/fit/about-fit-scheme/changes-fit-scheme

[16] There could be some variability for example due to changes in weather pattern between years. Therefore, we could have marginal under or over recovery between years.

The supplier said that there is normally a large variance between the level of exempt electricity supplied reported quarterly and annually. This variance is largely attributable to the timing of suppliers submitting Guarantees of Origin (GoOs) resulting in the exempt supply cap being exceeded in annual FIT reports but not exceeded or accounted for in the quarterly FIT reports.

Considerations

We have revisited this proposal and agree with the supplier that historically there has been significant variations between the exempt level of electricity reported quarterly and annually. This means that using quarterly actual figures may suggest that the exempt cap would not be breached in any given quarter, but overall, the exempt cap has been breached in every scheme year.

Following supplier comments, we now think that the quarterly actual figures may not be the most appropriate figure to use to use in our methodology. If we were to continue to proceed with the proposal to use the actual exempt renewable electricity sourced from outside the UK for each quarter, we could inadvertently affect the incentives in the FIT regime. We have instead decided to assume the cap will be breached in each scheme year, which means we are also assuming it will breached in each quarter of the scheme year.

Incorrect data values in Annex 4

In our November 2020 consultation, we published a draft of the 'Annex 4- Policy cost allowance methodology of SLC 28AD' which included FIT input data.

Stakeholder responses

One supplier identified discrepancies between a number of inputs in the draft Annex 4 and what they believed the correct numbers to be.

Considerations

We agree with the supplier that there were discrepancies in some of the input numbers in draft Annex 4.

We have corrected these numbers in the revised Annex 4 published alongside this decision.

It should be noted that this only affected the inputs, and has not required us to change any calculations in the Annex 4 methodology.

Annex 2: FIT scheme allowance methodology

Inputs

We use four inputs in our calculation of FIT scheme allowance (£/MWh):

- Levelisation fund (£);
- Total electricity supplied (MWh);
- Exempt supply for Energy Intensive Industries (MWh);
- The exempt cap on total renewable electricity sourced from outside the UK (MWh);
- RPI inflation.

We provide further detail of each of these input in turn and then explain our calculation.

Levelisation fund (£)

The levelisation fund represents the net costs to suppliers of the FIT scheme in every quarter and scheme year.[17] Table 1 below outlines the components used to calculate the levelisation fund. We source the data from our quarterly FIT invoices, these figures are also published in the FIT quarterly reports.[18] We discuss the quarterly levelisation funds that are used in each cap period in our calculation section below.

Table 1: Levelisation Fund description from Ofgem Annual report[19]

Cost	Description
FIT generation payments (A)	The total value of payments made to accredited generators, for on-site generation.
Total deemed export payments (B)	The total value of payments made to accredited generators for electricity that is deemed to have been exported to the grid.
Qualifying FIT costs (C)	The total administration costs allocated to FIT licensees. The administration costs are determined annually by the Secretary of State.
Value of deemed export (D)	The total value of deemed export to the licensees is defined as the amount of electricity deemed to have been exported by all accredited installations multiplied by the System Sell Price (SSP) for the annual period. This is the equivalent wholesale market price.
Total metered export payments (E)	The total value of payments made to accredited generators for electricity that is metered to have been exported to the grid.

[17] The scheme year runs from April to March, similar to a regulatory or financial year.
[18] Ofgem (2020) Feed-in Tariffs quarterly report. https://www.ofgem.gov.uk/environmental-programmes/fit/contacts-guidance-and-resources/public-reports-and-data-fit/feed-tariffs-quarterly-report.
[19] Ofgem (2020) Feed-in Tariff: Annual report 2019-2020. https://www.ofgem.gov.uk/environmental-programmes/fit/contacts-guidance-and-resources/public-reports-and-data-fit/annual-reports

Value of metered export (F)	The total value of metered export to the licensees is defined as the amount of electricity deemed to have been exported by all accredited installations multiplied by the System Sell Price (SSP) for the annual period. This is the equivalent wholesale market price.
Levelisation fund (=A+B+C-D+E-F)	Represents the net cost to suppliers of the FIT scheme year.

Total Electricity supplied (MWh)

We source total electricity supplied from quarterly FIT invoices. As noted above these figures are also published in FIT quarterly reports.

Exempt supply for Energy Intensive Industries (MWh)

We source Exempt supply for Energy Intensive Industries (EII) from quarterly FIT invoices. As noted above these figures are also published in FIT quarterly reports.

The Exempt cap on renewable electricity sourced from outside the UK (MWh)

The Exempt cap on renewable electricity sourced from outside the UK was first calculated by Ofgem for scheme year 7 and increases by 10% each year.[20] The annual cap is equally weighted across quarters within each scheme year and is reported in quarterly FIT invoices. We assume this cap will be breached in each quarter of a FIT scheme year.

RPI Inflation

The RPI inflation figures we use in our calculation is the RPI figures used to inflate the tariff rates annually as published on our website.[21] We have an obligation[22] to publish FIT tariff rates and the corresponding inflation figure used by the 1st February each year and these will be applied to the upcoming scheme year.

Calculation

Our calculation uses data on an 18-month lag as an input to our allowance. It divides the levelisation fund (£) by demand (MWh)[23] to calculate a unit rate for the FIT scheme costs (£/MWh).

Table 2 outlines the lagged periods these inputs are taken from and which cap period they apply to.

[20] Ofgem(2020) Feed-in Tariffs: Guidance for Licensed Electricity Suppliers (Version 13) https://www.ofgem.gov.uk/publications-and-updates/feed-tariffs-guidance-licensed-electricity-suppliers-version-13
[21] Ofgem, FIT tariff tables publications and updates, https://www.ofgem.gov.uk/environmental-programmes/fit/fit-tariff-rates
[22] Supply Licence Condition 33
[23] How we calculate the demand is discussed below.

Table 2: Details of the on the inputs FIT scheme allowance methodology[24]

Cap periods	Lagged costs and demand sourced from FIT quarterly invoices (18-month lag)
Period 6 (Apr 21- Sep 21)	Period **Oct 19 - Sep 20**
Period 7 (Oct 21 –Mar 22)	Period **Apr 20 - Mar 21**
Period 8 (Apr 22 – Sep 22)	Period **Oct 20 - Sep 21**
Period 9 (Oct 22 – Mar 23)	Period **Apr 21 - Mar 22**
Period 10 (Apr 23 –Sep 23)	Period **Oct 21 - Sep 22**
Period 11 (Oct 23 – Dec 23)	Period **Apr 21 - Mar 22**

Demand

The demand used in our calculation is calculated as the actual total electricity supplied (MWh) subtracted by the exempt supply for EII and the exempt supply cap for renewable electricity sourced from outside of the UK cap for each quarter. Each one of these inputs is the sum across the relevant quarterly invoices.

Demand (MWh) = Total Electricity supplied (MWh) – exempt supply for EII (MWh) – exempt supply cap for renewable electricity sourced from outside of the UK (MWh) for each quarter.

Levelisation Fund

We uprate the levelisation fund for the relevant lagged periods by inflation to convert it into an estimate of costs in the upcoming cap period.

Inflation

As our methodology cuts across different scheme years we uprate the costs using different inflation indexes:

- For summer cap periods, our lagged data cuts across two different scheme years. We separate the costs into the scheme year they were incurred and then index these costs by the appropriate RPI inflation index.
- For winter cap periods, all costs are from the previous scheme year and are inflated by the RPI inflation index that is applied to the following scheme year.

[24] The table displays the inputs that would be used for cap periods up to the end of 2023. This is for illustrative purposes and assumes that the default tariff cap is extended by the secretary of state to the end of 2023.