

Anna Rossington
Deputy Director, Future Consumers & Retail Price Protection
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

6 January 2021

Dear Anna,

Updating the allowance for the Shetland Cross Subsidy in the default tariff cap

Thank you for the opportunity to comment on this proposed amendment.

We note that the cost of the Assistance for Areas with High Electricity Distribution Costs (AAHEDC) scheme will increase from 1 April 2021 due to the implementation of a new energy solution for Shetland from mid-2019 onwards (the Shetland Cross Subsidy).

As explained in the consultation, the current price cap methodology uses the NGESO charging statement published on its website in July from the previous year to update the allowance for the AAHEDC scheme for a summer price cap period. However, the July 2020 charging statement does not include the additional amount of the Shetland cross-subsidy. The charging statement that includes the additional amount of the cross-subsidy will not be published until July 2021. Therefore, the existing methodology is able to reflect the cost increase from the seventh price cap period onwards but not the sixth.

We understand that Ofgem proposes to address this gap by estimating an additional uplift for the sixth period by dividing the Government's estimate of the yearly subsidy (£27m) by the latest estimate of demand (216.30TWh) which converts to an uplift of 0.013 p/kWh. In total, the AAHEDC tariff for the sixth price cap period rises to approximately 0.043 p/kWh.

We believe Ofgem's proposed updates to cells C13 and V13 of tab '3g AAHEDC' in Annex 4 of the price cap model adequately reflects the proposal above. We have no further comments to make at this stage.

Please do not hesitate to contact me or James Soundraraju (tel: 07548707639; email: jsoundraraju@scottishpower.com) if you have any questions arising from this response.

Yours sincerely,



Richard Sweet
Head of Regulatory Policy