

## **Condition 28AD. Regulation of charges for Domestic Customers supplied under certain Domestic Supply Contracts**

### **Requirement to adhere to a Charge Restriction**

#### *Overall policy intention*

*The overall policy intention is to deliver a cap on the prices of default tariffs, in line with the Bill. See chapter one of the main consultation document for more detail on the policy intention.*

*This is the electricity version of the draft licence condition.*

*Our default position has been to start with the licence drafting for the prepayment price cap (SLC 28A).*

28AD.1 In respect of each Relevant 28AD Customer and in accordance with the requirements of this condition, the licensee must ensure that at all times the aggregate amount of all Charges for Supply Activities applicable to each Relevant 28AD Customer does not exceed the Relevant Maximum Charge within each 28AD Charge Restriction Period.

28AD.2 Unless a direction has been issued by the Authority pursuant to paragraph 28AD.287, in order to comply with paragraph 28AD.1, the licensee must ensure that for each of its Tariffs the aggregate Charges for Supply Activities applicable to any Relevant 28AD Customer at any consumption level ( $x$  kWh) in respect of a 28AD Charge Restriction Period do not exceed the Relevant Maximum Charge.

### **Compliance in respect of Single-Register Tariffs**

#### *Policy intention*

*It is intended that this condition would apply the same substantive approach to Single-Register Tariffs and Multi-tier Tariffs to that taken in SLC 28A.*

28AD.3 For all Single-Register Tariffs, compliance with the Charge Restriction will be assessed against the Relevant Maximum Charge determined on the basis of the Benchmark Metering Arrangement values for Single-Rate Metering Arrangements. The licensee must ensure that each of its Multi-tier Tariffs complies with the Charge Restriction for all possible divisions of consumption between the different months within the 28AD Charge Restriction Period.

### **Compliance in respect of Multi-Register Tariffs**

#### *Policy intention*

*It is intended that this condition would apply, as far as possible, the same substantive approach to Multi-Register Tariffs to that taken in SLC 28A.*

28AD.4 For all Multi-Register Tariffs, compliance with the Charge Restriction will be assessed against the Relevant Maximum Charge determined on the basis of the Benchmark Metering Arrangement values for Economy 7 Metering Arrangements.

### Scope of condition 28AD

#### Policy intention

*The intention of this paragraph is to reflect the scope set out in the Bill. See paragraph 1.9 of the main consultation document.*

28AD.5 This condition 28AD does not apply in relation to:

- (a) a Domestic Customer in respect of any periods of time during which that Domestic Customer benefits from the requirements of condition 28A;
- (b) a Domestic Customer in respect of any periods of time during which that Domestic Customer benefits from a restriction on Charges for Supply Activities pursuant to section 3(2)(a) of the Act; or
- (c) [a Tariff chosen by a Domestic Customer in respect of which the Authority has issued a direction to the licensee under paragraph 28AD.24 to the effect that this condition 28AD does not apply to that Tariff by reason of section 3(2)(b) of the Act].

### Determination of Relevant Maximum Charge

#### Policy intention

*Our intention is that the level of the cap will increase in proportion to consumption and include a fixed standing charge component. See paragraph 2.79 of the main consultation document.*

*Compared to SLC28A, an additional subscript has been added to reflect our intention to set separate caps for standard credit customers and customers using other payment methods. See paragraph 2.69 of the main consultation document.*

#### **[Determination of the Relevant Maximum Charge**

28AD.6 For each Benchmark Metering Arrangement (denoted  $l$ ), Payment Method (denoted  $p$ ), 28AD Charge Restriction Period of length  $t$  months (denoted  $j$ ), and for each of the 14 Charge Restriction Regions (denoted  $i$ ), the Relevant Maximum Charge for a given level of consumption  $x$  shall be determined by reference to the Benchmark Maximum Charges applicable during a Charge Restriction Period at two Benchmark Annual Consumption Levels denoted below as  $nil$  and  $m$ , as follows:

$$ChargeMax_{i,j,l,p}(x) = \left[ ChargeMax_{i,j,l,p}(nil) \times \frac{t}{12} \right] + \left[ \frac{ChargeMax_{i,j,l,p}(m) - ChargeMax_{i,j,l,p}(nil)}{m} \times x \right]$$

*ChargeMax(m) and ChargeMax(nil) are defined as described in paragraph 28AD.7].*

***[Calculation of the Benchmark Maximum Charges for 28AD Charge Restriction Periods***

**Calculation of the Benchmark Maximum Charges for 28AD Charge Restriction Periods**

*Policy intention*

*Compared to SLC28A, an additional subscript has been added to reflect our intention to set separate caps for standard credit customers and customers using other payment methods – and the prepayment uplift has been replaced with a new “payment method adjustment” term to capture this. See paragraph 2.69 of the main consultation document.*

28AD.7 *For each 28AD Charge Restriction Period, the Authority will calculate the Benchmark Maximum Charge for each:*

- (a) Benchmark Annual Consumption Level;*
- (b) Charge Restriction Region;*
- (c) Benchmark Metering Arrangement; and*
- (d) Payment Method*

*in accordance with the following formula:*

$$\text{ChargeMax}_{i,j,k,l,p} = (WC_{j,k,l} + NC_{i,j,k,l} + PC_{j,k,l} + OC_{j,k,l} + H_{j,k,l,p} + PA_{i,j,k,l,p})$$

where (the following units all being in pounds sterling):

*ChargeMax<sub>i,j,k,l,p</sub> means the Benchmark Maximum Charge in Charge Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, and Payment Method p;*

*WC<sub>j,k,l</sub> means the Wholesale Cost Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, calculated in accordance with paragraph 28AD.8;*

*NC<sub>i,j,k,l</sub> means the Network Cost Allowance in Charge Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, determined in accordance with paragraph 28AD.9;*

*PC<sub>j,k,l</sub> means the Policy Cost Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for*

*Benchmark Metering Arrangement l, calculated in accordance with paragraph 28AD.10;*

$OC_{j,k,l}$  *means the Operating Cost Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, calculated in accordance with paragraph 28AD.11;*

$H_{j,k,l}$  *means the Headroom Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, calculated in accordance with paragraph 28AD.12;*

$PA_{i,j,k,l,p}$  *means the Payment Method Adjustment in Charge Restriction Region i, Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, for payment method p calculated in accordance with paragraph 28AD.13; ]*

## **Wholesale cost allowance**

### Policy intention

*Our intention is that the level of the cap would be updated with reference to trends in the prices of wholesale contracts for future delivery – calculated using a version of the model used to update the level of the existing safeguard tariffs - and estimates of the trend in capacity market costs. See Table 3 of the main consultation document – and paragraph 1.4 and 4.8 of Appendix 6.*

28AD.8 *[For the purposes of paragraph 28AD.7, the wholesale cost allowance in 28AD Charge Restriction Period j at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l shall be calculated as follows:*

$$WC_{j,k,l} = (DF_{0,k,l} \times \frac{DFI_j}{DFI_0}) + (CM_{0,k,l} \times \frac{CMI_j}{CMI_0})$$

where:

$DF_{0,k,l}$  *means the Baseline Value for the Direct Fuel Cost Component of the Wholesale Cost Allowance for Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16;*

$DFI_j$  *means the value of the Direct Fuel Cost Index in 28AD Charge Restriction Period j, which the Authority will calculate 6 monthly and, subject to paragraph 28AD.14 and 28AD.15 below, in accordance with the methodology set out in Annex 2;*

$DFI_0$	<i>means the Initial Value of the Direct Fuel Cost Index, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16;</i>
$CM_{0,k,l}$	<i>means the Baseline Value for the Capacity Market Component of the Wholesale Cost Allowance for Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16;</i>
$CMI_j$	<i>means the value of the Capacity Market Cost Index in 28AD Charge Restriction Period j, which the Authority will calculate semi-annually and, subject to paragraphs 28AD.14 and 28AD.15 below, in accordance with the methodology set out in Annex 2;</i>
$CMI_0$	<i>means the Initial Value of the Capacity Market Cost Index, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.]</i>

## **Network Cost Allowance**

### Policy intention

*Our intention is that an allowance would be included in the cap to reflect the latest network charges, estimated in the same way as under SLC28A. See paragraph 2.23 of the main consultation document.*

28AD.9 *[For the purposes of paragraph 28AD.7, the Network Cost Allowance in Charge Restriction Region i, in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l shall be calculated based on the data within published network company charging statements and, subject to paragraph 28AD.14 and 28AD.15 below, in accordance with the methodology and data sources set out in Annex 3. The day:night split used for calculating network charges shall be 58:42, unless the Authority issues a direction pursuant to paragraph 28AD.33 amending the percentages in paragraph 28AD.31, in which case the new peak and off-peak consumption levels specified for all Economy 7 Tariffs shall also be used for calculating network charges.]*

## **Policy Cost Allowance**

### Policy intention

*Our intention is that the level of the cap would be updated with reference to trends in policy costs (ie the costs of suppliers' environmental and social obligations). We would use a combination of schme data, OBR forecasts and information on the expected demand base across which costs are recovered to do so. See Table 3 of the main consultation document and Table A7.4 of Appendix 7 for full details.*

28AD.10 [For the purposes of paragraph 28AD.7, the Policy Cost Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, shall be calculated as follows:

$$PC_{j,k,l} = PC_{0,k,l} \times \frac{PI_{j,k,l}}{PI_{0,k,l}}$$

where:

$PC_{0,k,l}$  means the Baseline Value for the Policy Cost Allowance, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16;

$PI_{j,k,l}$  means the value of the Policy Cost Index at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, in 28AD Charge Restriction Period j, which the Authority will calculate semi-annually and, subject to paragraphs 28AD.14 and 28AD.15 below, in accordance with the methodology set out in Annex 4;

$PI_{0,k,l}$  means the Initial Value of the Policy Cost Index at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.]

## Operating cost allowance

### Policy intention

*Our intention is that the allowance in the cap for operating costs and a normal profit level would be updated with reference to trends in the CPIH. We would also include an uplift to reflect the expected impact of the smart meter rollout on net costs, relative to the baseline period. See Table 3 of the main consultation document, paragraph 3.2 of Appendix 8, and paragraph 4.4 of Appendix 9.*

28AD.11 [For the purposes of paragraph 28AD.7, the Operating Cost Allowance in 28AD Charge Restriction Period j, at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l shall be calculated as follows:

$$OC_{j,k,l} = (OC_{0,k,l} \times \frac{CPIH_j}{CPIH_0}) + SMNCC_j$$

where:

$OC_{0,k,l}$  means the Baseline Value for the Operating Cost Allowance at Benchmark Annual Consumption Level k, for Benchmark Metering Arrangement l, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16;

$CPIH_j$  means the value of the consumer prices index including owner occupiers' housing costs, series ID: L522 (the "CPIH index"), published by the Office for National Statistics. The value used shall be chosen as follows:

- For the First Charge Restriction Period the value of  $CPIH_j$  shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 September of the same calendar year, the value of  $CPIH_j$  shall be calculated as:

$$CPIH_j = CPIH_{Dec\ j-1}$$

- For a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 March of the subsequent calendar year, the value of  $CPIH_j$  shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

- For the Final Charge Restriction Period the value of  $CPIH_j$  shall be calculated as:

$$CPIH_j = CPIH_{Jun\ j-1}$$

$CPIH_0$  is the Initial Value of the CPIH index, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

$SMNCC_j$  is the value of the Smart Meter Net Cost Component in the 28AD Charge Restriction Period  $j$ , which the Authority will calculate semi-annually and, subject to paragraphs 28AD.14 and 28AD.15 below, in accordance with the methodology set out in Annex 5.]

## Headroom

### Policy intention

Our intention is that any headroom allowance should be calculated as a percentage that applies to all elements of costs except the network allowance. To avoid the headroom allowance varying by region, we have split the Payment Method Adjustment into two parts (see discussion of Payment Method Adjustment, below), and excluded the component that relates to regional network charges from the headroom calculation. See paragraph 2.59 of the main consultation document and paragraph 2.7 – 2.8 of Appendix 11.

28AD.12 [For the purposes of paragraph 28AD.7, the Headroom Allowance in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l* shall be calculated as follows:

$$H_{j,k,l,p} = HAP_l \times (WC_{j,k,l} + PC_{j,k,l} + OC_{j,k,l} + PAENC_{j,k,l,p})$$

where:

$HAP_l$  means the headroom allowance percentage for Benchmark Metering Arrangement *l*, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

$PAENC_{j,k,l,p}$  means the payment method adjustment excluding network costs in Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, for Payment Method *p* calculated in accordance with paragraph 0.

## Payment Method Adjustment

### Policy intention

Our intention is that a higher level of the cap would be set for standard credit customers, with the uplift partly set as a fixed % of total costs (excluding headroom), partly indexed with reference to CPIH. We intend to split the fixed % - reflecting greater working capital requirements for Standard Credit customers – into two parts. The first component would be calculated as a % of all costs except network charges, and so does not vary by region. The second component is calculated as a % of network charges, and so does vary by region. Only the former would be included when calculating any headroom allowance, to ensure that the allowance does not vary by region. See Table 3 of the main consultation document and paragraph 4.1 – 4.2 of Appendix 12.

28AD.13 [For the purposes of paragraph 28AD.7, the Payment Method Adjustment in Charge Restriction Region *i*, Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l* and for payment method *p* shall be calculated as follows:

$$PA_{i,j,k,l,p} = PAENC_{j,k,l,p} + PANC_{i,j,k,l,p}$$

where:

$PAENC_{j,k,l,p}$  means the Payment Method Adjustment excluding network costs in Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, and for Payment Method *p* which shall be calculated as follows:



$$PAENC_{j,k,l,p} = \left( PAAC_{0,p} \times \frac{CPIH_j}{CPIH_0} \right) + \left[ PAP_p \times (WC_{j,k,l} + PC_{j,k,l} + OC_{j,k,l}) \right]$$

where:

$PAAC_{0,p}$  means the Baseline Value for the Payment Method Adjustment additional cost for Payment Method  $p$ , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16;

$PAP_p$  means the Payment Method Adjustment percentage for Payment Method  $p$ , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

$CPIH_j$  has the meaning given to in paragraph 28AD.11.

$CPIH_0$  has the meaning given to in paragraph 28AD.11.

$PANC_{i,j,k,l,p}$  means the Payment Method Adjustment relating to network costs in Charge Restriction Region  $i$ , in Charge Restriction Period  $j$ , at Benchmark Annual Consumption Level  $k$ , for Benchmark Metering Arrangement  $l$ , and for Payment Method  $p$ , which shall be calculated as follows:

$$PANC_{i,j,k,l,p} = [PAP_p \times NC_{i,j,k,l}]$$

## Data sources

### Policy intention

*In line with the existing safeguard tariffs, provision would be included to use alternative data sources to update the level of the cap were any of those set out above no longer available.*

28AD.14 *[If the external data sources referred to in Annexes 2, 3, 4 or 5 are no longer available, the Authority may replace the data sources set out in Annexes 2, 3, 4 or 5 (as applicable) with any suitable successor data sources. If the Authority cannot identify a suitable successor data source, it may, following consultation, either replace the data with an alternative data source, or amend the form of the model to reflect the change in data availability.]*

28AD.15 *[Placeholder for potential condition dealing with amendment to annex methodologies].*

## **Determination and publication of Benchmark Maximum Charges and other values**

### *Policy intention*

*The policy intention is that we will publish the final input data for the cap by notice – see paragraphs 6.12 and 6.14 in the main consultation document.*

28AD.16 No later than *[date to be confirmed as part of the statutory consultation]*, the Authority will publish by way of a statement in Writing the Baseline Values and the Initial Values, calculated in the format specified in Annex 1.

### *Policy intention*

*As set out in paragraph 2.5 of appendix 5 of the policy consultation, the length of the initial period of the cap is likely to be shorter than six months. The timing of the notification will therefore be different.*

28AD.17 No later than *[date to be confirmed as part of the statutory consultation]*, the Authority will:

- (a) determine the Benchmark Maximum Charges which shall apply for the First Charge Restriction Period *j* by calculating such values in accordance with paragraph 28AD.7; and
- (b) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

### *Policy intention*

*The policy intention is that we will update the default tariff cap twice a year. Chapter 2 of appendix 5 in the policy consultation explains the process we intend to follow.*

28AD.18 For each Subsequent Charge Restriction Period, subject to paragraphs 28AD.20 and 28AD.21, no later than the fifth Working Day of February in relation to a forthcoming 28AD Charge Restriction Period *j* starting on 1 April, or no later than the fifth Working Day of August in relation to a forthcoming 28AD Charge Restriction Period *j* starting on 1 October, the Authority will:

- (a) determine the updated Benchmark Maximum Charges which shall apply for any forthcoming 28AD Charge Restriction Period *j* by calculating such values in accordance with paragraph 28AD.7; and
- (b) publish such Benchmark Maximum Charges so calculated in the format specified in Annex 6.

28AD.19 *[Subject to paragraphs 28AD.20 and 28AD.21, at the same time as publishing the Benchmark Maximum Charges pursuant to paragraph 28AD.18(b) the Authority will also publish the following values and, where relevant, identify the data sources used:*

- (a) *the values of the Direct Fuel Cost Index and Capacity Market Cost Index (being  $DFI_j$  and  $CMI_j$ ), calculated in accordance with paragraph 28AD.8;*
- (b) *the values of the Network Cost Allowance in each Charge Restriction Region  $i$  and for Benchmark Metering Arrangement  $l$ , determined in accordance with paragraph 28AD.9;*
- (c) *the value of the Policy Cost Index (being  $PI_j$ ) as calculated in accordance with paragraph 28AD.10;*
- (d) *the value of the Smart Meter Net Cost Component (being  $SMNCC_j$ ), as calculated in accordance with paragraph 28AD.11; and*
- (e) *the value of  $CPIH_j$  as described in paragraph 28AD.11.]*

28AD.20 If the information that is required to calculate one or more of the values listed in paragraph 28AD.19 is unavailable at the time of the calculation, the Authority may use an alternative source to set the values to determine the Benchmark Maximum Charges. In that event, the Authority will publish the alternative value(s) it has used to determine the Benchmark Maximum Charge at the same time as publishing the Benchmark Maximum Charges.

28AD.21 If, owing to a technical issue, the Authority is unable to publish the Benchmark Maximum Values or the values listed in paragraph 28AD.19 within the timetable set out in paragraph 28AD.17, it will publish such values without delay following resolution of the technical issue.

### **Duration of the Charge Restriction**

#### *Policy intention*

*The following paragraphs are intended to reflect the arrangements set out in the Bill for the duration of the cap. See also paragraph 5.3 in appendix 5 of the policy consultation.*

28AD.22 This condition will come into force on [*date to be confirmed as part of the statutory consultation*] and, subject to this condition automatically ceasing to have effect pursuant to paragraph 28AD.23, will cease to have effect at 23:59 on 31 December 2023.

28AD.23 This condition will automatically cease to have effect 23:59 on 31 December of:

- (a) the year 2020, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(1) of the Act;
- (b) the year 2021, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(2) of the Act; or

- (c) the year 2022, unless in that calendar year the Secretary of State publishes a statement to the effect set out at section 8(3) of the Act.

***[Direction for the purposes of section 3(2)(b) of the Act***

*Policy intention*

*For our policy intention on renewable electricity tariffs, see appendix 13 of the policy consultation.*

*The drafting below refers to ‘unambiguous evidence’ – this reflects the position set out in paragraph 3.11 of appendix 13 of the policy consultation. This would help to ensure that the proposed derogation approach can be clearly defined and robustly monitored, in line with the criteria used to assess options in appendix 13.*

28AD.24 *The licensee may apply to the Authority to request a direction that a particular Tariff complies with section 3(2)(b) of the Act such that this condition 28AD does not apply in pursuant to paragraph 28AD.5(c).*

28AD.25 *The Authority may issue a direction pursuant to paragraph 28AD.24 where the licensee can provide unambiguous evidence to the reasonable satisfaction of the Authority that all of the following conditions are met:*

*[would be confirmed in light of policy consultation].*

28AD.26 *[Placeholder for potential consequential condition regarding potential process for notification and consequences of noncompliance with derogation under 28AD.25]*

**Direction for alternative compliance assessment**

*Policy intention*

*The intention is to replicate the derogation and rebate process available in the existing safeguard tariff, to avoid reducing the ability of suppliers to provide tariffs with low standing charges. See paragraph 2.80 of the main consultation document.*

28AD.27 The licensee may apply to the Authority to request a direction concerning the compliance of a particular Tariff with the Charge Restriction where, due to the structure of the relevant Tariff, the Charges for Supply Activities at certain consumption levels would exceed the Relevant Maximum Charge, but the licensee can provide evidence to the reasonable satisfaction of the Authority that it is unlikely that Relevant 28AD Customers subject to such Tariff will have a consumption level which would cause them to incur Charges for Supply Activities in excess of the Relevant Maximum Charge.

28AD.28 If the Authority has issued a direction to the licensee pursuant to paragraph 28AD.27, the licensee must comply with such direction and must determine, at the end of each 28AD Charge Restriction Period, whether any Relevant 28AD

Customer has in fact incurred Charges for Supply Activities in excess of the Relevant Maximum Charge. If the licensee determines that this is the case, the licensee must:

- (a) inform the Authority in Writing without delay; and
- (b) pay a rebate to, or credit the account of, each such Relevant 28AD Customer equal to the difference between the Charges for Supply Activities actually incurred (or, if the Tariff is a Multi-Register Tariff, the difference between the Charges for Supply Activities calculated on the basis of the Assumed Consumption Split) by Relevant 28AD Customers and the Relevant Maximum Charge within 30 days of the end of the relevant 28AD Charge Restriction Period.

### **Requirements for reasonable estimate of the average consumption split for Multi-Register Tariffs**

#### Policy intention

*It is intended that a different approach would be taken for the first Charge Restriction Period to avoid any delays in implementation. We would intend to give suppliers sufficient notice of the Assumed Consumption Splits that they will be expected to use for the first Charge Restriction Period for tariffs to be set accordingly – but our policy intention is not to include a particular period of notice ahead of the first Charge Restriction Period in this licence drafting.*

### **Assumed Consumption Split where the Tariff varies by time of consumption or purpose (Multi-Register Tariffs)**

#### Policy intention

*The policy intention is to follow the existing safeguard tariffs and use assumed consumption splits for multi-register tariffs. There would be different arrangements for Economy 7 tariffs and other restricted meter tariffs. See paragraph 2.81 of the main consultation document.*

28AD.29 For the purpose of assessing compliance of Multi-Register Tariffs with the Charge Restriction pursuant to paragraph 28AD.3, in calculating the aggregate amount of all Charges for Supply Activities, consumption in different periods will be weighted using an Assumed Consumption Split determined in accordance with paragraph 28AD.31.

28AD.30 For the purpose of the review to be carried out pursuant to paragraph 28AD.28, in calculating the Charges for Supply Activities incurred by Relevant 28AD Customers on any given Tariff, consumption in different peak and off-peak periods will be weighted using an Assumed Consumption Split determined in accordance with paragraph 28AD.31.

28AD.31 The Assumed Consumption Splits shall apply across Great Britain, reflect annual consumption patterns, and be determined as follows:

- (a) in respect of each Economy 7 Tariff, off-peak and peak consumption levels of 42% and 58%, respectively, shall be the Assumed Consumption Split, subject to any direction from the Authority issued pursuant to paragraph 28AD.33;
- (b) in respect of each Multi-Register Tariff (other than an Economy 7 Tariff), the Assumed Consumption Split shall be based on historic consumption data or, in the absence of historic data, on a reasonable estimate of the average consumption split, subject to any direction from the Authority issued pursuant to paragraph 28AD.33.

28AD.32 In respect of each Multi-Register Tariff (other than an Economy 7 Tariff), the licensee must:

- (a) notify the Authority in Writing of the Assumed Consumption Split with accompanying relevant data relating to the historic consumption of their customers, no less than three months before the beginning of each relevant 28AD Charge Restriction Period or, if a Tariff is capable of being entered into for the first time at a date after the beginning of a 28AD Charge Restriction Period, two months before that date; and
- (b) when historic data are not available in relation to a particular Tariff, the licensee must:
  - (i). notify the Authority as per paragraph 28AD.32(a) its forecast of the average consumption split relevant to that Tariff (which shall be used as the Assumed Consumption Split), as well as evidence supporting this forecast, and
  - (ii). no later than three months after the last day of each 28AD Charge Restriction Period, notify in Writing to the Authority the actual average consumption usage split for that Tariff in the previous 28AD Charge Restriction Period.

28AD.33 The licensee must comply with any direction which the Authority may issue, having first sought representations from the licensee (to which the Authority will have regard), to use an alternative Assumed Consumption Split in relation to one or more Multi-Register Tariffs. This Assumed Consumption Split shall be notified:

- (a) in relation to a Multi-Register Tariff capable of being entered into for the first time at a date after the beginning of a 28AD Charge Restriction Period, no later than one month before the launch of that Tariff; and
- (b) in relation to any other Multi-Register Tariff, no later than the date on which the Benchmark Maximum Charges are published pursuant to paragraph 28AD.16.

28AD.34 The licensee must comply with any direction which the Authority may issue, after consultation with the licensee, to pay a rebate to Relevant 28AD Customers if, due to a discrepancy between the forecast and actual average consumption splits referred to in paragraph 28AD.32(b), Relevant 28AD Customers either individually or collectively incurred Charges for Supply Activities materially in excess of the Relevant Maximum Charge.

### **Definitions for condition**

28AD.35 In this condition:

**‘Act’** means the Domestic Gas and Electricity (Tariff Cap) Act 2018 (as amended from time to time);

**‘Assumed Consumption Split’** means the assumed percentage consumption split between each rate relevant to a Multi-Register Metering Arrangement, determined pursuant to paragraph 28AD.31;

**‘Baseline Value’** means the values as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 and in the format set out at Annex 1. This includes the values of the headroom allowance percentage and payment method adjustment percentage;

**‘Benchmark Annual Consumption Levels’** means the benchmark annual consumption levels nil kWh and  $m$  kWh, where  $m$  shall respectively take the following values:

For Single-Register Metering Arrangements

$m = [appropriate\ values\ to\ be\ confirmed\ in\ light\ of\ policy\ consultation]$  kWh;

For Multi-Register Metering Arrangements

$m = [appropriate\ values\ to\ be\ confirmed\ in\ light\ of\ policy\ consultation]$  kWh;

**‘Benchmark Maximum Charge’** means one of 112 benchmark maximum charge values (in pounds sterling and exclusive of Value Added Tax), which are unique to a specific

Benchmark Annual Consumption Level, Charge Restriction Region, Benchmark Metering Arrangement and Payment Method, and are updated on a semi-annual basis by the Authority pursuant to paragraphs 0 and 28AD.17 to 28AD.18;

**‘Benchmark Metering Arrangement’** means either a Single-Rate Metering Arrangement or an Economy 7 Metering Arrangement, to be used for the purpose of this licence pursuant to 28AD.3 and 28AD.4; for the purposes of applying Annexes 1 to 6 when determining the Benchmark Maximum Charge pursuant to paragraph 0, means using: (a) the values set out in the columns headed ‘Single-rate meters’ for determining the Benchmark Maximum Charge for Single-Rate Metering Arrangements; and (b) the values set out in the columns headed ‘Economy 7 meters’ for determining the Benchmark Maximum Charge for Multi-Register Metering Arrangements;

**‘Capacity Market Component’** means the component of the Wholesale Cost Allowance that is calculated to reflect suppliers’ costs in relation to the capacity market scheme, in 28AD Charge Restriction Period *j*, and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 2;

**‘Capacity Market Cost Index’** means the index value calculated in accordance with the methodology set out at Annex 2, for the periods and within the timeframes specified in this condition 28AD, which is used to update the level of the Capacity Market Component;

**‘Charge Restriction’** means the obligation set out in paragraph 28AD.1;

*Policy intention*

*Our policy intention is to update the default tariff cap every six months. (See paragraph 3.13 of the main consultation document).*

**‘28AD Charge Restriction Period’** means a period, between [date to be confirmed as part of the statutory consultation] and 31 December 2023, either:

- *the First Charge Restriction Period;*
- *a Subsequent Charge Restriction Period beginning on 1 April of each year and ending on 30 September of the same calendar year; or*
- *a Subsequent Charge Restriction Period beginning on 1 October of each year and ending on 31 March of the subsequent calendar year; or*
- *the Final Charge Restriction Period]*

**‘Charge Restriction Region’** means a Distribution Services Area;



**‘Charges for Supply Activities’** has the meaning given to that term in standard condition 22A;

*Policy intention*

*In line with the Bill, the policy intention is that the cap will apply to default fixed term tariffs. (See the executive summary of the main consultation document). The definition below is based on the definition used for the existing safeguard tariff (SLC 28AA).*

**‘28AD Default Fixed Term Contract’** means any type or part of a Domestic Supply Contract or any other contractual arrangement which may apply or be deemed to apply to a Domestic Customer, including by virtue of any law or enactment (“other contractual arrangement”) which:

- (a) contains any terms and conditions which apply for a fixed term period; and
- (b) comes into effect automatically or at the discretion of the licensee after the expiry or termination of any type or part of a previous Domestic Supply Contract or, where applicable, other contractual arrangement (“previous contract”) either:
  - (i) by virtue of the terms and conditions provided for in that previous contract (and, for the purposes of this definition, it is irrelevant whether or not the Domestic Customer originally agreed to any terms and conditions which purported to permit that automatic effect or discretion of the licensee); or
  - (ii) otherwise by the operation of the law or any provision of an enactment;

**‘Direct Fuel Cost Component’** means the component of the Wholesale Cost Allowance that is calculated to reflect the cost of wholesale electricity purchases in 28AD Charge Restriction Period  $j$ , at Benchmark Annual Consumption Level  $k$ , for Benchmark Metering Arrangement  $l$ , and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 2;

**‘Direct Fuel Cost Index’** means the index value calculated in accordance with the methodology set out at Annex 2, for the periods and within the timeframes specified in this condition 28AD, which is used to update the level of the Direct Fuel Cost Component;

**‘Economy 7 Metering Arrangement’** means using an Electricity Meter for the purpose of an Economy 7 Tariff;

**‘Economy 7 Tariff’** means a Tariff whereby a Domestic Customer is charged on the basis of two separate Unit Rates, where in each period of 24 hours the peak electricity consumption level is recorded during 17 ‘day/normal’ hours and the off-peak electricity consumption level is recorded during seven ‘night/low’ hours;

Policy intention

*The policy intention is that the first cap period will be shorter than six months. (See paragraph 3.14 of the main consultation document).*

**‘First Charge Restriction Period’** means the period beginning on [date to be confirmed as part of the statutory consultation] and ending on [31 March 2019].

Policy intention

*In line with the Bill, the default tariff cap will end by 31 December 2023 at the latest. The implication of our policy position to set cap in six-monthly periods starting in April and October is that this final charge restriction period will be irregular. (We did not explain this implication in the policy consultation).*

**‘Final Charge Restriction Period’** means the period beginning on 1 October of 2023 and ending on 31 December 2023.

**‘Headroom Allowance’** means the amount which is additional to the Wholesale Cost Allowance, the Network Cost Allowance, the Policy Cost Allowance, the Operating Cost Allowance and the Payment Method Adjustment which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.12;

**‘Initial Value’** means the initial values of the indices used to update the Baseline Values of each cost component, as specified by the Authority by publishing a statement in Writing in accordance with paragraph 28AD.16 and in the format set out at Annex 1;

**‘Metering Arrangement’** means, for the purpose of this licence condition, using one or more Electricity Meters for the purpose of a Tariff whereby a Domestic Customer is charged either on the basis of a Multi-Register Metering Arrangement or on the basis of a Single-Register Metering Arrangement;

**‘Multi-tier Metering Arrangement’** means using an Electricity Meter for the purpose of a Tariff whereby a Domestic Customer is charged on the basis of a Unit Rate which varies according to the Domestic Customer’s electricity consumption over a defined period of time;

**‘Multi-tier Tariff’** means a Tariff whereby a Domestic Customer incurs Charges for Supply Activities on the basis of a Multi-tier Metering Arrangement;

**‘Multi-Register Metering Arrangement’** means using one or more Electricity Meters for the purpose of a Tariff whereby a Domestic Customer’s electricity consumption at certain times, or for certain purposes (for example, heating), or both, is separately recorded - on one or more registers - and includes any contractual arrangement whereby the Domestic Customer is charged on the basis of Time of Use Rates (regardless of the metering equipment employed);

**‘Multi-Register Tariff’** means a Tariff whereby a Domestic Customer incurs Charges for Supply Activities on the basis of a Multi-Register Metering Arrangement;

**‘Network Cost Allowance’** means the amount calculated to reflect the costs associated with transmission, distribution and balancing charges in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 3;

**‘Operating Cost Allowance’** means the amount calculated to reflect an efficient level of the costs associated with suppliers’ own internal operating costs (including a normal level of profit) in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.11;

*Policy intention*

*Our policy intention is that this category will include both direct debit and prepayment. (See paragraph 2.38 of appendix 12 of the policy consultation).*

**‘Other Payment Method’** means any Payment Method that is not Standard Credit.

**‘Payment Method’** means the method of payment for Charges for Supply Activities that the Relevant 28AD Customer has chosen, being either Standard Credit or a Other Payment Method.

**‘Payment Method Adjustment’** means the amount calculated to reflect any additional costs associated with the Payment Method, in Charge Restriction Region *i*, in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.13.

**‘Policy Cost Allowance’** means the amount calculated to reflect the costs associated with electricity suppliers’ environmental and social obligations in 28AD Charge Restriction Period *j*, at Benchmark Annual Consumption Level *k*, for Benchmark Metering Arrangement *l*, which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 4;

**‘Policy Cost Index’** means the index value calculated in accordance with the methodology set out at Annex 4, for the periods and within the timeframes specified in this condition 28AD, which is used to update the level of the Policy Cost Allowance;

Policy intention

*The policy intention set out in the Bill is that the cap will protect consumers paying default tariffs. This definition is aligned with the Bill, and reflects the drafting already used for the existing safeguard tariff (SLC 28AA).*

**‘Relevant 28AD Customer’** means a Domestic Customer supplied by virtue of the Electricity Supply Licence held by the licensee and which is subject to an Evergreen Supply Contract, a Deemed Contract or a 28AD Default Fixed Term Contract.

Policy intention

*The policy intention is that the cap will vary with consumption. (See paragraph 1.10 of the main consultation document).*

**‘Relevant Maximum Charge’** means for each Relevant 28AD Customer the maximum charge amount (in pounds sterling, excluding value added tax) for any consumption level, calculated in accordance with paragraph 28AD.6;

**‘Single-Rate Metering Arrangement’** means using one or more Electricity Meters for the purpose of a Tariff whereby a Domestic Customer is required to pay for the Charges for Supply Activities on the basis of a single Unit Rate;

**‘Single-Register Metering Arrangement’** means any Metering Arrangement which is not a Multi-Register Metering Arrangement, and includes a Single-Rate Metering Arrangement (regardless of the metering equipment employed) and a Multi-Tier Metering Arrangement in which the Unit Rate does not vary according to the time of use);

**‘Single-Register Tariff’** means a Tariff whereby a Domestic Customer is required to pay for the Charges for Supply Activities on the basis of a Single-Register Metering Arrangement;

**‘Smart Meter Net Cost Component’** means the value calculated in accordance with the methodology set out at Annex 5, for the periods and within the timeframes specified in this condition 28AD, which is used to update the level of the Operating Cost Allowance;

**‘Standard Credit’** means a payment method whereby a Domestic Customer pays the licensee directly for Charges for Supply Activities after receiving a Bill, such payment not drawn automatically from a Domestic Customer’s bank account by reason of a direct debit authorisation or otherwise;

**‘Subsequent Charge Restriction Period’** means any 28AD Charge Restriction Period which is not the First Charge Restriction Period;

**‘Tariff’** means a Tariff in respect of any Domestic Supply Contract or Deemed Contract with a Relevant 28AD Customer;

**‘Wholesale Cost Allowance’** means the amount calculated to reflect the cost of wholesale electricity in 28AD Charge Restriction Period  $j$ , at Benchmark Annual Consumption Level  $k$ , for Benchmark Metering Arrangement  $l$ , the components of which are the Direct Fuel Cost Component and the Capacity Market Component, and which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with the methodology set out at Annex 2.

## Annex 1 – Format for publishing Baseline Values and Initial Values

### Policy intention

As set out in 6.4 of the main consultation, we intend to confirm baseline values and input data by notice. This annex summarises the different values required to calculate the level of the cap that we will publish.

### Baseline Values

	Single-rate Metering Arrangement (benchmark consumption per annum, $k$ )		Economy 7 Metering Arrangement (benchmark consumption per annum, $k$ )	
	Nil kWh	$m$ ([appropriate values to be confirmed in light of policy consultation] kWh)	Nil kWh	$m$ ([appropriate values to be confirmed in light of policy consultation] kWh)
$DF_{0,k,l}$				
$CM_{0,k,l}$				
$PC_{0,k,l}$				
$OC_{0,k,l}$				

### Headroom Allowance

	Single-register Metering Arrangement	Economy 7 Metering Arrangement
$HAP_1$		

### Payment Method Adjustment

Payment Method $p$	$PAP_p$	$PAAC_{0,p}$
Standard Credit		
Other Payment Method		

## Initial Values

DFI <sub>0</sub>	
CMI <sub>0</sub>	
CPIH <sub>0</sub>	

	<b>Single-rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)</b>		<b>Economy 7 Metering Arrangement (benchmark consumption per annum, <i>k</i>)</b>	
	Nil kWh	<i>m</i> ([appropriate values to be confirmed in light of policy consultation] kWh)	Nil kWh	<i>m</i> ([appropriate values to be confirmed in light of policy consultation] kWh)
PI <sub>0,k</sub>				

**[Annex 2 – Methodology for determining the Direct Fuel Cost Index and Capacity Market Cost Index]**

*Policy intention*

*This annex sets out the methodology used to calculate the level of the Direct Fuel Cost Index and the Capacity Market Cost Index, as used to calculate the level of the Wholesale Cost Allowance in each 28AD Charge Restriction Period (see paragraph 28AD.8).*

*.xls file available at []*



**[Annex 3 – Methodology for determining the Network Cost Allowance]**

Policy intention

*This annex sets out the methodology used to calculate the level of the Network Cost Allowance in each 28AD Charge Restriction Period (see paragraph 28AD.9).*

*.xls file available at []*

**[Annex 4 – Methodology for determining the Policy Cost Index]**

*Policy intention*

*This annex sets out the methodology used to calculate the level of the Policy Cost Index in each 28AD Charge Restriction Period (see paragraph 28AD.10).*

*.xls file available at []*

**[Annex 5 – Methodology for determining the Smart Meter Net Cost Component]**

*Policy intention*

*This annex sets out the methodology used to calculate the level of the Smart Meter Net Cost Component in each 28AD Charge Restriction Period (see paragraph 28AD.11).*

*.xls file available at []*

**[Annex 6 – Format for the publication of Benchmark Maximum Charges]**

Policy intention

*Our intention to set separate caps for standard credit customers and customers using other payment methods, implying a further permutation of each cap compared to SLC28A. See paragraph 2.69 of the main consultation document.*

**[Standard Credit]**

<b>Region, <i>i</i></b>	<b>Single-rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)</b>		<b>Economy 7 Metering Arrangement (benchmark consumption per annum, <i>k</i>)</b>	
	<b>Nil kWh</b>	<b><i>m</i> ([appropriate values to be confirmed in light of policy consultation] kWh)</b>	<b>Nil kWh</b>	<b><i>m</i> ([appropriate values to be confirmed in light of policy consultation] kWh)</b>
North West England				
North East England				
Yorkshire & North Lincolnshire				
North Scotland				
Southern England				
Southern Scotland				
North Wales and Mersey				
London				
South East England				
East England				
East Midlands				
West Midlands				
South West England				
South Wales				

**[Other Payment Method]**

<b>Region, <i>i</i></b>	<b>Single-rate Metering Arrangement (benchmark consumption per annum, <i>k</i>)</b>		<b>Economy 7 Metering Arrangement (benchmark consumption per annum, <i>k</i>)</b>	
	<b>Nil kWh</b>	<i>m</i> ([appropriate values to be confirmed in light of policy consultation] kWh)	<b>Nil kWh</b>	<i>m</i> ([appropriate values to be confirmed in light of policy consultation] kWh)
North West England				
North East England				
Yorkshire & North Lincolnshire				
North Scotland				
Southern England				
Southern Scotland				
North Wales and Mersey				
London				
South East England				
East England				
East Midlands				
West Midlands				
South West England				
South Wales				