

All interested stakeholders

Email: retailpriceregulation@ofgem.gov.uk

Date: 15 June 2018

Dear all,

Default tariff cap: publication of draft licence condition 28AD

Government has introduced legislation into Parliament (the Domestic Gas and Electricity (Tariff Cap) Bill) which would require Ofgem to design and put in place a temporary cap on all standard variable tariffs and fixed-term default tariffs (the “default tariff cap”).

On 25 May 2018, we published our policy consultation on how we might design and implement the default tariff cap proposed by the Bill.¹ We recognised in that consultation that you may want to understand how we plan to modify the licence, and stated that we would publish draft licence conditions this week.²

Today, we have published two sets of documents as described below. Today’s publications do not imply any decision on any element that we are currently consulting on as part of the policy consultation. We will be taking all feedback received into consideration to inform the final positions that we will consult on as part of the statutory consultation and therefore, all elements of the publication remain subject to change.

a) Draft licence conditions for gas and electricity

We have published a draft licence condition for two purposes: to consult on specific elements of the licence and to provide early sight of how our “minded-to” positions as set out in the policy consultation may be taken forward through licence drafting.

We are specifically consulting on the elements of the licence that describe the mechanics of how we intend to implement and monitor the default tariff cap. The text we are consulting on is in plain text in the draft licence conditions.

In addition we recognise that the ongoing policy consultation is consulting on many elements that will make up the final licence condition, and we are not prejudging the outcome of that consultation. However, to aid your understanding of how the licence might fit together, we have also included drafting in italics and square brackets that illustrates how we might implement those policy positions where we have indicated in the policy consultation that we have a “minded-to” position. We are not, at this stage, formally

¹ Ofgem (2018), Default tariff cap: policy consultation – overview
<https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-policy-consultation-overview>

² Ofgem (2018), Default tariff cap: policy consultation – overview, paragraph 6.9.

consulting on this “minded-to” drafting, although we will take into consideration any comments we receive. Where we do not have a “minded-to” position we have included a placeholder rather than licence drafting.

The licence conditions will not include input data for the cap. These will be set via notice which will be consulted on prior to publishing the final notice at the end of October 2018.

b) Initial view of annexes to the licence conditions

We have also provided a separate suite of documents that provide an initial view of the annexes to the licence condition. The annexes take the form of models showing the calculations that will be used to update the allowances for wholesale, network, policy and smart costs. This level of detail has been provided for transparency purposes and although does not form part of the consultation as set out above, we are taking this opportunity to provide you with early sight of how we might take the “minded-to” positions forward in practice. We would welcome any early views or questions you may have in advance of us formally consulting on them as part of the statutory consultation.

Response and next steps

The deadline for responses to the licence condition consultation set out under section a) above is **5pm on Friday 29th June 2018**. We will then take into consideration any comments, alongside those provided on the policy consultation³, prior to publishing a statutory consultation on the required licence modifications in August.

We have not provided specific consultation questions. However, we would particularly welcome comments on:

- the overall structure of the draft licence condition, and
- whether the draft licence condition reflects the likely statutory framework, as set out in the Bill.

The statutory consultation will provide a further opportunity to comment on the precise wording and detail of the licence conditions and annexes. However, we are also happy to consider any initial comments on the wording of this draft licence condition.

Yours sincerely,



Anna Rossington

Deputy Director, Retail Price Protection – Consumers & Markets

³ Response deadline for the policy consultation remains 12.30pm Monday 25th June 2018