29 June 2018

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Dear Anna,

Re: Default Tarif Cap: Publication of draft licence conditions 28AD

Thank you for the opportunity to comment on the above consultation. Utilita very much welcomes the principle of providing an earlier, informal consultation on the licence drafting. We acknowledge that this is based on the current drafting, and that Ofgem has stated this does not mean a decision has been made, but we do have some concerns in this instance.

As we flagged in our submission to the main consultation, we do not support the approach of a general, short consultation on the possible approaches under the cap, followed by a statutory consultation. We believe that there should be a full, separate consultation on the proposed structure of the cap, before moving to the statutory consultation.

On this basis, we reserve our final view of the licence drafting until we are able to consider it in the context of the final proposed methodology. We strongly support the approach of a full, bottom up methodology, and believe the drafting to support that approach would be significantly different to that currently supplied.

In addition, there are two other general comments we wish to make before moving to points on the specific drafting.

DCC costs

We appreciate that Ofgem has incorporated drafting to include smart meter rollout costs within the operating cost allowance, we believe this must ensure an explicit passthrough of all DCC costs imposed on suppliers in as close to the correct period as possible. Any timing differences should be corrected in the next available period.

The margins are so fine in the proposals to date, there is no room at all for error; suppliers cannot be expected to carry and fund such escalating costs, where they have no control.

Adjustments to the Default Tariff Cap

We note in the current text for the Act, that the intention is the level of the cap should be reviewed every six months but not the methodology.

We agree that a full methodology review every six months would not be practical. However, we believe it is essential that provision is made to adjust for changes, in policy or clear differences in pass through items, which suppliers cannot control. When margins are as slim as those proposed, the cap must be maintained as accurately as possible, which includes adjusting for in period changes where these are significant for suppliers.

We suggest that there is an automatic review whenever there is a policy change, which affects any part of the cap which is not controllable by suppliers. An alternative would be to make provision for suppliers to request a review, where they believe grounds exist as a result of such a change.

Comments on the drafting

Electricity Licence drafting, paragraph 28AD.3

In this paragraph, the following text appears.

"…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."

We believe this sentence should be clarified or a descriptive example provided on the exact meaning and intention. We are having difficulty understanding how this would be differentiated from the concepts associated with Multi-register tariffs.

We also note that this does not appear to be in the Gas licence drafting. As gas tariffs can also have more than one unit rate, we would like to understand whether this omission is significant.

Annex 2

We note the current spreadsheet provided is a copy of the one used for the Prepayment Charge Restriction (PCR). We offer the following comments:

In respect of the Base/Peak ratio, we believe that Ofgem's 70:30 suggestion is significantly inaccurate. We provided a detailed analysis of this issue in our response to the main Default Tariff Cap consultation. Please refer to that submission.

Ofgem's implied seasonal (electricity)/quarterly (gas) demand forecasts which have been used for the price weightings substantially underestimate increased Winter demand. The higher demand periods are reflected in aggregated national demand, driving wholesale market prices; these products are inevitably more volatile and higher risk. By understating their weighting within the wholesale calculation, suppliers are forced to buy a greater proportion of the more volatile products than has been factored into the cap.

We believe this is an error, which should be correctable. Seasonal normal demand ratios can be clearly defined by Elexon and Xoserve default profiles (default period profile class coefficients in market domain data, for electricity; annual load profiles for gas). The electricity data was further amended with actual line and transmission losses, plus group correction factors, to reflect a final allocation (using _E Midlands region). Utilita is happy to share the underlying calculations and data with Ofgem upon request.

Additionally, Ofgem are using a single value for electricity; Utilita believe PC1 and PC2 average demand should be separately calculated, as PC2 customers use a far higher percentage of their annual demand in Winter.

Elec winter ratios, actual vs. Ofgem:

PC	Actual Winter	CMA Winter
1	58%	53%
2	62%	53%

Gas quarterly ratios, actual vs. Ofgem:

QT	Split	vs CMA
1	42%	33%
2	16%	21%
3	7%	17%
4	34%	29%

Annex 3

Under 2(a) we would propose that separate loss adjustment factors should be calculated for E7 customers.

Annex 5

We have reviewed the information available, and while this appears reasonable, we cannot verify the information properly until the calculations are available.

We hope that these comments have been helpful, and would be happy to discuss any points in more detail should you have questions.

Kind regards

By email

Alison Russell
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