

To: All holders of a domestic gas
and/or electricity supply licence

Email: retailpriceregulation@ofgem.gov.uk

Date: 18 May 2020

Domestic Gas and Electricity (Tariff Cap) Act 2018

Notice of statutory consultation on a proposal to modify the standard conditions of all gas & electricity supply licences

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify the standard conditions of all gas and electricity supply licences granted or treated as granted under section 6(1)(d) of the Electricity Act 1989 and section 7A(1) of the Gas Act 1986, pursuant to section 1 of the Domestic Gas and Electricity (Tariff Cap) Act 2018 ('the Act'). These proposed modifications are set out in Appendix 1 and Appendix 2.
2. We are proposing to modify the standard supply conditions, incorporated in supply licences by virtue of section 8 of the Gas Act 1986 or section 8A of the Electricity Act 1989, namely the conditions which impose a cap on all standard variable and default rates that may be charged by the holders of supply licences for the supply of gas or electricity under domestic supply contracts ('the tariff cap conditions'), subject to section 3 of the Act (exemptions from the tariff cap).
3. The Competition and Markets Authority ('the CMA') designed the Prepayment Charge Restriction ('PPM cap') to protect energy consumers with prepayment meters ('PPM customers') from weak competition and barriers to engagement. In July 2019, the CMA recommended that Ofgem consider whether and how to protect PPM customers after the PPM cap expires at the end of 2020.

¹ The terms "the Authority", "Ofgem", "we" and "us" are used interchangeably in this document.

4. In our statutory consultation on providing protection to energy customers with prepayment meters we propose to protect PPM customers through the default tariff cap after the PPM cap expires. During the Energy Market Investigation², the CMA found there were technical barriers that constrained competition and choice for PPM customers. We do not think these barriers have substantially changed yet and therefore propose to continue protection for PPM customers.
5. Currently, the default tariff cap does not apply to PPM customers. Section 3 of the Act excludes PPM customers because they already benefit from the PPM cap. When the PPM cap expires, this exemption will cease to apply, unless we replace the PPM cap with a separate cap for PPM customers. Otherwise, the default tariff cap will apply to all customers with default tariffs, including PPM customers.
6. At present, the drafting of the Standard Licence Conditions ('SLCs') of the electricity and gas supply licences define payment methods; these are denoted by subscript "p" and consist of standard credit, fully-interoperable smart prepayment and 'other' payment. The Other Payment Method category currently captures any payment methods that are not Fully-Interoperable smart PPM or Standard Credit. The default tariff cap has different cap levels for customers paying by standard credit and those paying by other payment methods. The Other Payment Method category is reflective of the costs of serving customers who pay by direct debit.
7. If we allow the PPM cap to expire without replacement, then PPM customers on default tariffs would fall within the scope of 'other payment methods'. We consider this would be inappropriate as PPM customers are more costly to serve than customers who pay by direct debit.
8. We are proposing to introduce modifications to SLC 28AD of the gas and electricity supply licences in order to introduce a new default tariff cap level that is suitable for PPM customers. We propose that a new cap level would apply to all PPM customers with default tariffs and will not differentiate between customers with traditional or smart PPM meters.
9. For the purpose of designing the new default tariff cap level for PPM customers, we propose to use the same cost components as in the current default tariff cap. Therefore, the majority of the allowances in the cap would not require reassessment or adjustment, as they do not directly vary by payment method. The components which do directly vary by payment method are non-pass-through Smart Metering Net Cost Change ('SMNCC') costs and the payment method uplift.

² <https://www.gov.uk/cma-cases/energy-market-investigation>

10. We therefore propose to make the modifications to SLC 28AD of the gas and electricity supply licences set out in Appendix 1 and Appendix 2.
11. We are proposing these modifications in order to protect existing and future prepayment meter customers who pay default rates, after the expiry of the PPM cap.
12. These proposed licence modifications would have effect in relation to supply licences, whenever granted, and on domestic supply contracts, whenever entered into.
13. A more detailed description of the reasons for and effects of these proposed licence modifications can be found in the accompanying document to this Notice, which is available at:

<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-protecting-energy-consumers-prepayment-meters>
14. Copies of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively, you can request a paper copy by emailing library@ofgem.gov.uk.
15. Any representations with respect to the proposed licence modifications must be made on or before **26 June 2020** by email to retailpriceregulation@ofgem.gov.uk
16. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
17. If we decide to make the proposed modifications, they will take effect not less than 56 days after the decision is published.

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Anna Rossington

Duly authorised on behalf of the Gas and Electricity Markets Authority

18 May 2020

Appendix 1 – Draft of proposed changes to modify the standard conditions of all electricity supply licences.

We have included the sections of the SLCs we have decided to remove or amend below. Deletions are shown in strike through and new text is double underlined.

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

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

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:

$$\begin{aligned} ChargeMax_{i,j,k,l,p} &= (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + OC_{j,k,l,p} + PA_{i,j,k,l,p} \\ &+ E_{i,j,k,l,p} + H_{i,j,k,l,p}) \end{aligned}$$

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

$ChargeMax_{i,j,k,l,p}$ 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 ;

- $WC_{i,j,k,l}$ means the Wholesale Cost Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , calculated in accordance with paragraph 28AD.8;
- $NC_{i,j,k,l}$ 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;
- $PC_{i,j,k,l}$ means the Policy Cost Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , calculated in accordance with paragraph 28AD.10;
- $OC_{j,k,l,p}$ means the Operating Cost Allowance in 28AD 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.11;
- $PA_{i,j,k,l,p}$ means the Payment Method Adjustment in Charge Restriction Region i , 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 28AD.12;
- $E_{i,j,k,l,p}$ means the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , 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 28AD.13;

$H_{i,j,k,l,p}$ means the Headroom Allowance in Charge Restriction Region i , in
28AD 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.14.

Operating cost allowance

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 and for Payment Method p shall be calculated as
follows:

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

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.17;

$CPIH_j$ 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.17.

$SMNCC_{j,k,p}$ is the value of the Smart Metering Net Cost Change in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p comprising:

- the Smart Metering Pass-Through Net Cost Change, which the Authority will, subject to paragraph 28AD.15 and 28AD.16 below, determine and publish semi-

annually in accordance with paragraph 28AD.19 and in the format set out in Annex 5; and

- the Smart Metering Non-Pass-Through Net Cost Change, which the Authority will publish in the format set out in Annex 5 and:
 - following consultation, re-publish in the format set out in Annex 5 following a review of the Smart Metering Non-Pass-Through Net Cost Change which the Authority will undertake during the course of 2019, such re-publication to take effect for the 28AD Charge Restriction Period starting on 1 October 2019; and;
 - otherwise, and subject to paragraphs 28AD.15 and 28AD.16 below, re-publish in the format set out in Annex 5 where it appears to the Authority that it is necessary to do so, such re-publication not to take effect before the first day of the 28AD Charge Restriction Period immediately following the date on which it is published.

Payment Method Adjustment

28AD.12 For the purposes of paragraph 28AD.7, the Payment Method Adjustment in Charge Restriction Region *i*, in 28AD 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:

$$PA_{i,j,k,l,p} = (PAAC_{0,p} \times \frac{CPIH_j}{CPIH_0})$$

$$+ [PAP_{l,p} \times (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + OC_{j,k,l,p})]$$

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.17. ~~or, from time to time and following consultation, and in relation to the Baseline Value for Fully Interoperable Smart Prepayment only, re-published by the Authority by way of a statement in Writing where it appears to the Authority that it is necessary to amend the Baseline Value for Fully Interoperable Smart Prepayment.~~

$PAP_{l,p}$ means the Baseline Value for the Payment Method Adjustment Percentage, for Benchmark Metering Arrangement l , for Payment Method p , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17. ~~or, from time to time and following consultation, and in relation to the Baseline Value for Fully Interoperable Smart Prepayment only, re-published by the Authority by way of a statement in Writing where it appears to the Authority that it is necessary to amend the Baseline Value for Fully Interoperable Smart Prepayment.~~

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

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

Earnings Before Interest and Tax Allowance

28AD.13 For the purposes of paragraph 28AD.7, the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for

Benchmark Metering Arrangement l , for Payment Method p , shall be calculated as follows:

$$E_{i,j,k,l,p} = EBIT \times (WC_{i,j,k,l} + NC_{i,j,k,l} + PC_{i,j,k,l} + OC_{j,k,l,p} + PA_{i,j,k,l,p})$$

where:

$EBIT$ means the Baseline Value for the Earnings Before Interest and Tax Margin Percentage, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17.

Headroom

28AD.14 For the purposes of paragraph 28AD.7, the Headroom Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Benchmark Metering Arrangement l , for Payment Method p , shall be calculated as follows:

$$H_{i,j,k,l,p} = HAP \times (WC_{i,j,k,l} + PC_{i,j,k,l} + OC_{j,k,l,p} + PA_{i,j,k,l,p} + E_{i,j,k,l,p})$$

where:

HAP means the Baseline Value for the Headroom Allowance Percentage, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.17.

$PA_{i,j,k,l,p}$ means the Payment Method Adjustment in Charge Restriction Region i , in 28AD 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.12.

Definitions for condition

28AD.40 In this condition:

‘Benchmark Maximum Charge’ means one of ~~168~~ the 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 28AD.18 to 28AD.19;

~~‘Fully-Interoperable Smart Prepayment’~~ means a ~~Payment Method~~ whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a ~~Prepayment Meter~~ which falls within the definition of ~~Excluded Smart Meter~~ (as defined in condition 28A)

‘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 , for Payment Method p which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.11;

‘Other Payment Method’ means any Payment Method that is not Standard Credit or Prepayment ~~Fully-Interoperable Smart Prepayment~~;

‘Payment Method’ means:

- (a) in relation to any Relevant 28AD Customer that is not a Relevant 28AD Warm Home Discount Customer, the method by which that Relevant 28AD Customer pays for Charges for Supply Activities, being either Standard Credit, ~~Fully-Interoperable Smart Prepayment~~ Prepayment or Other Payment Method; or
- (b) in relation to a Relevant 28AD Warm Home Discount Customer, Other Payment Method;

‘Prepayment’ means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter or a Smart Meter running in Prepayment Mode.

‘Relevant 28AD Warm Home Discount Customer’ means a Relevant 28AD Customer with a payment method of Standard Credit or Other Payment Method, excluding Prepayment, which falls into at least one of the categories listed at Annex 7 to this condition 28AD;

Annex 1 – Format for publishing Baseline Values and Initial Value of the CPIH Index

Baseline Values

Operating Cost Allowance

| | Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>) | | Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>) | |
|--------------|---|-----------------------------|--|----------------------------|
| | Nil kWh | <i>m</i> (3,100 kWh) | Nil kWh | <i>m</i> (4,200kWh) |
| $OC_{0,k,l}$ | | | | |

Headroom Allowance Percentage

| | |
|-----|--|
| HAP | |
|-----|--|

Earnings Before Interest and Tax Margin Percentage

| | |
|------|--|
| EBIT | |
|------|--|

Payment Method Adjustment Percentage (PAP)

| Payment Method p | Single-Rate Metering Arrangement | Multi-Register Metering Arrangement |
|---|---|--|
| Standard Credit | | |
| Fully Interoperable Smart Prepayment | | |
| <u>Prepayment</u> | | |
| Other Payment Method | | |

Payment Method Adjustment Additional Cost

| Payment Method p | PAAC_{0,p} |
|---|---------------------------|
| Standard Credit | |
| Fully Interoperable Smart Prepayment | |
| <u>Prepayment</u> | |
| Other Payment Method | |

Initial Value of the CPIH Index

| | |
|-------------------|--|
| CPIH ₀ | |
|-------------------|--|

Annex 6 – Format for the publication of Benchmark Maximum Charges

Standard Credit

| Region, <i>i</i> | Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>) | | Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>) | |
|--------------------|---|---------------------|--|---------------------|
| | Nil kWh | <i>m</i> (3,100kWh) | Nil kWh | <i>m</i> (4,200kWh) |
| North West | | | | |
| Northern | | | | |
| Yorkshire | | | | |
| Northern Scotland | | | | |
| Southern | | | | |
| Southern Scotland | | | | |
| N Wales and Mersey | | | | |
| London | | | | |
| South East | | | | |
| Eastern | | | | |
| East Midlands | | | | |
| Midlands | | | | |
| Southern Western | | | | |
| South Wales | | | | |

Other Payment Method

| Region, <i>i</i> | Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>) | | Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>) | |
|--------------------|---|---------------------|--|---------------------|
| | Nil kWh | <i>m</i> (3,100kWh) | Nil kWh | <i>m</i> (4,200kWh) |
| North West | | | | |
| Northern | | | | |
| Yorkshire | | | | |
| Northern Scotland | | | | |
| Southern | | | | |
| Southern Scotland | | | | |
| N Wales and Mersey | | | | |
| London | | | | |
| South East | | | | |
| Eastern | | | | |
| East Midlands | | | | |
| Midlands | | | | |
| Southern Western | | | | |
| South Wales | | | | |

Prepayment

| <u>Region, i</u> | <u>Single-Rate Metering Arrangement (benchmark consumption per annum, k)</u> | | <u>Multi-Register Metering Arrangement (benchmark consumption per annum, k)</u> | |
|---------------------------|--|---------------------|---|---------------------|
| | <u>Nil kWh</u> | <u>m (3,100kWh)</u> | <u>Nil kWh</u> | <u>m (4,200kWh)</u> |
| <u>North West</u> | | | | |
| <u>Northern</u> | | | | |
| <u>Yorkshire</u> | | | | |
| <u>Northern Scotland</u> | | | | |
| <u>Southern</u> | | | | |
| <u>Southern Scotland</u> | | | | |
| <u>N Wales and Mersey</u> | | | | |
| <u>London</u> | | | | |
| <u>South East</u> | | | | |
| <u>Eastern</u> | | | | |
| <u>East Midlands</u> | | | | |
| <u>Midlands</u> | | | | |
| <u>Southern Western</u> | | | | |
| <u>South Wales</u> | | | | |

Fully-Interoperable Smart Prepayment

| Region, <i>i</i> | Single-Rate Metering Arrangement (benchmark consumption per annum, <i>k</i>) | | Multi-Register Metering Arrangement (benchmark consumption per annum, <i>k</i>) | |
|--------------------|---|---------------------|--|---------------------|
| | Nil kWh | <i>m</i> (3,100kWh) | Nil kWh | <i>m</i> (4,200kWh) |
| North West | | | | |
| Northern | | | | |
| Yorkshire | | | | |
| Northern Scotland | | | | |
| Southern | | | | |
| Southern Scotland | | | | |
| N Wales and Mersey | | | | |
| London | | | | |
| South East | | | | |
| Eastern | | | | |
| East Midlands | | | | |
| Midlands | | | | |
| Southern Western | | | | |
| South Wales | | | | |

Appendix 2 – Draft of proposed changes to modify the standard conditions of all gas supply licences.

We have included the sections of the SLCs we have decided to remove or amend below. Deletions are shown in strike through and new text is double underlined.

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

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

28AD.6 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; and
- (c) Payment Method

in accordance with the following formula:

$$\begin{aligned} ChargeMax_{i,j,k,p} &= (WC_{j,k} + NC_{i,j,k} + PC_{j,k} + OC_{j,k,p} + PA_{i,j,k,p} \\ &+ E_{i,j,k,p} + H_{i,j,k,p}) \end{aligned}$$

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

$ChargeMax_{i,j,k,p}$ means the Benchmark Maximum Charge in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , and Payment Method p ;

$WC_{j,k}$ means the Wholesale Cost Allowance in 28AD Charge

Restriction Period j , at Benchmark Annual Consumption Level k , calculated in accordance with paragraph 28AD.7;

$NC_{i,j,k}$ means the Network Cost Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , determined in accordance with paragraph 28AD.8;

$PC_{j,k}$ means the Policy Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , calculated in accordance with paragraph 28AD.9;

$OC_{j,k,p}$ means the Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.10;

$PA_{i,j,k,p}$ means the Payment Method Adjustment in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.11;

$E_{i,j,k,p}$ means the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p , calculated in accordance with paragraph 28AD.12;

$H_{i,j,k,p}$ means the Headroom Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.13.

Operating Cost Allowance

28AD.10 For the purposes of paragraph 28A.6, the Operating Cost Allowance in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k and for Payment Method p shall be calculated as follows:

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

where:

$OC_{0,k}$ means the Baseline Value for the Operating Cost Allowance at Benchmark Annual Consumption Level k 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 subsequent 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.

$SMNCC_{j,k,p}$ is the value of the Smart Metering Net Cost Change in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p comprising:

- the Smart Metering Pass-Through Net Cost Change, which the Authority will, subject to paragraphs 28AD.14 and 28AD.15 below, determine and publish semi-annually in accordance with paragraph 28AD.18 and in the format set out in Annex 5; and
- the Smart Metering Non-Pass-Through Net Cost Change, which the Authority will publish in the format set out in Annex 5 and:
 - following consultation, re-publish in the format set out in Annex 5 following a review of the Smart Metering Non-Pass-Through Net Cost Change which the Authority will undertake during the course of 2019, such re-publication to take effect for the 28AD Charge Restriction Period starting on 1 October 2019; and

- otherwise, and subject to paragraphs 28AD.14 and 28AD.15 below, re-publish in the format set out in Annex 5 where it appears to the Authority that it is necessary to do so, such re-publication not to take effect before the first day of the 28AD Charge Restriction Period immediately following the date on which it is published.

Payment Method Adjustment

28AD.11 For the purposes of paragraph 28A.6, the Payment Method Adjustment in Charge Restriction Region i , 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k and for Payment Method p shall be calculated as follows:

$$PA_{i,j,k,p} = (PAAC_{0,p} \times \frac{CPIH_j}{CPIH_0}) + [PAP_p \times (WC_{j,k} + NC_{i,j,k} + PC_{j,k} + OC_{j,k,p})]$$

$PAAC_{0,p}$ 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. ~~or, from time to time and following consultation and in relation to the Baseline Value for Fully Interoperable Smart Prepayment only, re-published by the Authority by way of a statement in Writing where it appears to the Authority that it is necessary to amend the Baseline Value for Fully Interoperable Smart Prepayment.~~

PAP_p means the Baseline Value for the Payment Method Adjustment Percentage p , as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16. ~~or, from time to time and following consultation, and in relation to the Baseline Value for Fully Interoperable Smart Prepayment only, re-published by the Authority by way of a statement in Writing where it appears to the Authority that it is~~

~~necessary to amend the Baseline Value for Fully Interoperable Smart Prepayment.~~

$CPIH_j$ has the meaning given to in paragraph 28AD.10.

$CPIH_0$ has the meaning given to in paragraph 28AD.10.

Earnings Before Interest and Tax Allowance

28AD.12 For the purposes of paragraph 28A.6, the Earnings Before Interest and Tax Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p , shall be calculated as follows:

$$E_{i,j,k,p} = EBIT \times (WC_{j,k} + NC_{i,j,k} + PC_{j,k} + OC_{j,k,\underline{p}} + PA_{i,j,k,p})$$

where:

$EBIT$ means the Baseline Value for the Earnings Before Interest and Tax Margin Percentage, as published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

Headroom

28AD.13 For the purposes of paragraph 28A.6, the Headroom Allowance in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p , shall be calculated as follows:

$$H_{i,j,k,p} = HAP \times (WC_{j,k} + PC_{j,k} + OC_{j,k,\underline{p}} + PA_{i,j,k,p} + E_{i,j,k,p})$$

where:

HAP means the Baseline Value for the Headroom Allowance Percentage as

published by the Authority by way of a statement in Writing pursuant to paragraph 28AD.16.

$PA_{i,j,k,p}$ means the Payment Method Adjustment in Charge Restriction Region i , in 28AD Charge Restriction Period j , at Benchmark Annual Consumption Level k , for Payment Method p calculated in accordance with paragraph 28AD.11

Definitions for condition

28AD.33 In this condition:

‘Benchmark Maximum Charge’ means one of ~~84~~ the 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 and Payment Method, and are updated on a semi-annual basis by the Authority pursuant to paragraphs 28AD.17 to 28AD.18;

~~‘Fully Interoperable Smart Prepayment’~~ means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter which falls within the definition of Excluded Smart Meter (as defined in condition 28A);

‘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 Payment Method p which the Authority is to calculate for the periods and within the timeframes specified in this condition 28AD in accordance with paragraph 28AD.10;

‘Other Payment Method’ means any Payment Method that is not Standard Credit or Prepayment ~~Fully Interoperable Smart Prepayment~~;

‘Payment Method’ means:

- (a) in relation to any Relevant 28AD Customer that is not a Relevant 28AD Warm Home Discount Customer, the method by which that Relevant 28AD Customer pays for Charges for Supply Activities, being either Standard Credit, ~~Fully Interoperable Smart Prepayment~~ Prepayment or Other Payment Method; or
- (b) in relation to a Relevant 28AD Warm Home Discount Customer, Other Payment Method;

‘Prepayment’ means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter or a Smart Meter running in Prepayment Mode.

‘Relevant 28AD Warm Home Discount Customer’ means a Relevant 28AD Customer with a payment method of Standard Credit or Other Payment Method, excluding Prepayment, which falls into at least one of the categories listed at Annex 7 to this condition 28AD;

Annex 1 – Format for publishing Baseline Values and Initial Value of the CPIH Index

Baseline Values

Operating Cost Allowance

| | | |
|--------------|----------------|--|
| | Nil kWh | <i>m (12,000</i> kWh) |
| <i>OC0,k</i> | | |

Headroom Allowance Percentage

| | |
|-----|--|
| HAP | |
|-----|--|

Earnings Before Interest and Tax Margin Percentage

| | |
|------|--|
| EBIT | |
|------|--|

Payment Method Adjustment Percentage & Payment Method Adjustment Additional Cost

| Payment Method <i>p</i> | <i>PAP_p</i> | <i>PAAC0,p</i> |
|---|-------------------------------|-----------------------|
| Standard Credit | | |
| Fully Interoperable Smart Prepayment | | |
| <u>Prepayment</u> | | |
| Other Payment Method | | |

Initial Value of the CPIH Index

| | |
|-------------------|--|
| CPIH ₀ | |
|-------------------|--|

Annex 6 – Format for the publication of Benchmark Maximum Charges

Standard Credit

| Region, <i>i</i> | Nil kWh | <i>m</i> (12,000 kWh) |
|-------------------------|----------------|------------------------------|
| North West | | |
| Northern | | |
| Yorkshire | | |
| Northern Scotland | | |
| Southern | | |
| Southern Scotland | | |
| N Wales and Mersey | | |
| London | | |
| South East | | |
| Eastern | | |
| East Midlands | | |
| Midlands | | |
| Southern Western | | |
| South Wales | | |

Other Payment Method

| Region, <i>i</i> | Nil kWh | <i>m</i> (12,000 kWh) |
|-------------------------|----------------|------------------------------|
| North West | | |
| Northern | | |
| Yorkshire | | |
| Northern Scotland | | |
| Southern | | |
| Southern Scotland | | |
| N Wales and Mersey | | |
| London | | |
| South East | | |
| Eastern | | |
| East Midlands | | |
| Midlands | | |
| Southern Western | | |
| South Wales | | |

Fully-Interoperable Smart Prepayment

| Region, <i>i</i> | Nil kWh | <i>m</i> (12,000 kWh) |
|-------------------------|----------------|------------------------------|
| North West | | |
| Northern | | |
| Yorkshire | | |
| Northern Scotland | | |
| Southern | | |
| Southern Scotland | | |
| N Wales and Mersey | | |
| London | | |
| South East | | |
| Eastern | | |
| East Midlands | | |
| Midlands | | |
| Southern Western | | |
| South Wales | | |

Prepayment

| <u>Region, i</u> | <u>Nil kWh</u> | <u>m (12,000 kWh)</u> |
|---------------------------|----------------|-----------------------|
| <u>North West</u> | | |
| <u>Northern</u> | | |
| <u>Yorkshire</u> | | |
| <u>Northern Scotland</u> | | |
| <u>Southern</u> | | |
| <u>Southern Scotland</u> | | |
| <u>N Wales and Mersey</u> | | |
| <u>London</u> | | |
| <u>South East</u> | | |
| <u>Eastern</u> | | |
| <u>East Midlands</u> | | |
| <u>Midlands</u> | | |
| <u>Southern Western</u> | | |
| <u>South Wales</u> | | |