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Dear Leonardo

We are writing in response to your consultation on reflecting prepayment End User Categories (EUC) in the default tariff cap. This submission is non-confidential and may be published on your website.

We welcome the intent to reflect the different EUC bands in the default tariff caps. This should make the prepayment (PPM) cap more reflective of the lower costs incurred by suppliers for those customers, who are more likely to be in fuel poverty. We support the approach to network costs and the quarterly shares of demand. However, the proposed approach for Unidentified Gas (UIG) will systematically increase the overall allowances, across the PPM and non-PPM caps, beyond the level identified as efficient and so is not accurate or fair to consumers.

Network charges and quarterly shares of demand

The consultation notes the introduction of unique EUCs for domestic gas PPM customers, which more accurately reflect their consumption behaviour. At the same time a unique EUC for domestic gas non-PPM customers was also introduced. This means there are separate Annual Load Profiles (ALP) and Peak Load Factors (PLF) for PPM and non-PPM customers.

The current PPM price cap calculations for network charges and the quarterly shares of demand make use of the ALPs and PLFs for non-PPM customers. This is a clear error and so the solution is straightforward. There is no impact on the default tariff cap for non-PPM customers as this is using the correct ALPs and PLFs, unique to non-PPM customers.

Unidentified Gas (UIG)

The current approach UIG is not comparable to network charges and quarterly shares of demand in that it does not need correcting, but rather could be improved upon. The current approach to UIG applies the same value (2%) to both PPM and non-PPM caps. This value reflects Ofgem's assessment of the efficient level for UIG across all customers and so is valid. The introduction of new EUC bands has now enabled UIG to be allocated separately between PPM and non-PPM. The view of the industry appointed expert (AUGE[1]) is that the overall level of UIG across all domestic users is 2.03%[2], which is very close to Ofgem's current view of an efficient level, but that more UIG should be allocated to PPM customers (and less to non-PPM customers). So it is reasonable for Ofgem to consider reflecting this in the price caps. However, it is not reasonable, as is proposed, to update the PPM cap to reflect the higher level of UIG determined by the AUGE for PPM customers and not update the non-PPM cap to reflect the lower level of UIG for non-PPM customers. This means the overall allowances for UIG, across the caps, will be higher than both Ofgem's and the AUGE's views of an efficient level. This is introducing a systematic error to the detriment of consumers.

We also believe the proposed value for UIG for non-PPM customers is slightly overstated[3]. The consultation states it is calculated by 'dividing the EUC band 1PD total UIG by the forecast consumption in the target year for the same EUC band'. In fact, the calculation has been done for Product Class 4 customers only and so excludes Product Class 3 customers. All customers in EUC band 1 are relevant to the cap and should be included.

So, in summary, Ofgem should either:

Maintain the current approach of estimating the efficient level of UIG across all domestic users and apply the single value to both the PPM and non-PPM caps (with the current 2% value being supported by the AUGE view of 2.03%). Or:

Apply the proposed methodology of aligning to the AUGE view, differentiated between customer types, to both the PPM and non-PPM caps.

And:

Calculate values across all EUC band 1 users

Yours sincerely

Andy Manning

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[1] Allocation of Unidentified Gas Expert

[2] Calculated dividing the EUC band 1PD total UIG (across Product Classes 3&4) by the forecast consumption in the target year for the same EUC band

[3] Calculating across Product Classes 3&4 gives 5.34%, rather than the 5.39% proposed