



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

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Dear Rob

We are writing in response to your consultation on the capacity market allowance in the default tariff cap, issued on 15 January 2019.

This submission was prepared by Citizens Advice. Citizens Advice has statutory responsibilities to represent the interests of energy consumers in Great Britain. This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

We recognise that the current suspension of the capacity market ('CM'), and uncertainty on when State Aid approval for a replacement scheme will be granted, creates genuine difficulties in setting that component of the tariff cap, in particular for its second period. While procedurally the easiest path for the regulator to take at this point might be to simply to proceed with the existing methodology, that would create a risk that consumers would overpay, in the event that the pathway and timeline to getting replacement State Aid approval resulted in suppliers being allowed to recover 'costs' for a period where no CM liabilities are due. The approach you are proposing, of seeking to try and flex the allowable costs to reflect your best understanding of whether the CM will be in place, appears to us to be a reasonable and proportionate response to this issue.

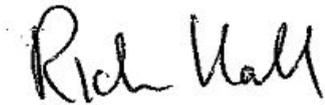
We are supportive of the principle that it may be necessary to adjust the costs allowed for in the third cap period to correct the consequences if the assumption made now on whether the CM scheme will be in place during the second cap period proves to be incorrect for some, or all, of that six month window. Your consideration of whether to apply such a correction should be informed by its proportionality, noting that uncertainties on when a new CM scheme may be in place may mean that the period of inaccurate recovery that needs to be corrected may only be days, not months.

We think that correction mechanism needs to be more clearly bi-directional, however. On pages two and four of your letter you signal the possibility that Ofgem might consider adjusting the cap in its third period upwards to allow for any under-recovery by suppliers in the second period to be corrected. There are no

equivalent statements around the possibility of adjusting downwards to allow for any over-recovery by suppliers in the second period to be corrected. We would like to see Ofgem take the same steps to consider the correction of over-recovery as it would do in relation to under-recovery.

I trust that this response is clear, but would be happy to discuss any matter raised within it in more depth if that would be helpful.

Yours sincerely

A handwritten signature in black ink that reads "Rich Hall". The signature is written in a cursive, slightly slanted style.

Richard Hall
Chief Energy Economist