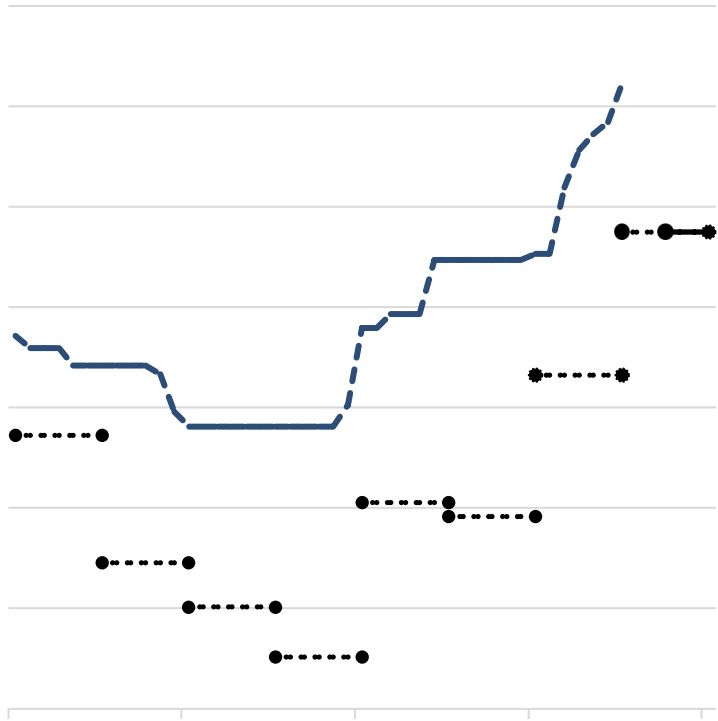


THE ACT: Protecting customers on default tariffs

THE PROBLEM: a two tier market

We estimated the allowances for each cost component using a range of analyses

	Direct Debit	Standard Credit	Bottom-up assessment using:
Wholesale	447	447	Forward prices for wholesale contracts.
Policy	137	137	Administrators' forecasts for scheme costs
Network	258	258	Changing statements for the network costs
Operating costs, including smart costs	198	198	Benchmarked 2017 operating costs for 10 large suppliers Additional component for net change in smart costs
Payment method uplift	12	88	Benchmarked 2017 additional costs to serve standard credit
EBIT	20	22	CMA assessment of normal rate of return
VAT	54	58	
“Efficient” Benchmark	1,125	1,208	
Headroom – ‘top up’	12	13	consideration of risk and uncertainty not already allowed for in our benchmark assessments
Cap level in period 1	1,137	1,221	



We will review “whether **conditions** are in place for effective competition for domestic supply contracts” (the Act)

Flexible

- Use broad criteria
- No thresholds
- Rely on the direction of movement of key market indicators



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Next Steps

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