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Sent via email to: Retailpriceregulation@ofgem.gov.uk

13 September 2019

Dear Anna,

SMNCC Review Update Papers

I am writing in response to the four update papers Ofgem has published as part of its ongoing SMNCC Review. This is a high-level industry response covering the papers in the round, and we anticipate that our members will respond individually to each update paper where appropriate. Energy UK has an overall concern that the manner in which Ofgem has sought views on its proposals, with staggered papers on tight deadlines (at the same time as issuing RFIs to suppliers), may limit the scope and effectiveness of the representations it receives.

Update Paper #1: Overall Approach & Timelines

Energy UK continues to support Ofgem's central plan to use the updated SMIP CBA as the basis for an updated SMNCC model for the April 2020 price cap period and beyond. We acknowledge that Ofgem are unable to consult with industry at this stage as previously planned due to delays to the SMIP CBA, and welcome its intention to consult appropriately should it become available before October. We agree that it would be reasonable for the October/November consultation being presented as a statutory consultation, on the proviso that it is genuinely open-minded. Ofgem should ensure sufficient time is allowed to consider responses in full and if the consultation reveals the need for significant revisions then it should not be reluctant to do so.

We also agree with Ofgem's assessment that, should the updated SMIP CBA not be available before October, or if its proposed updated model require substantial revision, it would be inappropriate to not include an SMNCC allowance in price cap period four. In addition, the proposed usage of the current SMNCC model seems the most reasonable contingency plan under these circumstances. As suppliers are obliged to take all reasonable steps to install smart meters to domestic premises by the end of 2020, this requires (under the Electricity and Gas Acts) that the necessary investment and activities are financed, otherwise the roll-out is compromised.

However, we are concerned about Ofgem linking the continued use of the current SMNCC as a contingency measure to having regard for advanced or lagged payments in the previous cap periods. As previously raised with Ofgem, we believe that this proposal would risk undermining the continued funding and delivery of the smart meter rollout and undermining investments already made.

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Update Paper #2: Data Gathering

We welcome Ofgem's request for information on Premature Replacement Charges (PRC) and additional net advertising costs, as well as subsequent RFIs on IT costs and meter rental contracts. With respect to PRCs, we are concerned that the focus appears to be on replacement of traditional meters, with no account of premature replacement of SMETS1/AMR/smart-type meters with a SMETS2 meter.

However, we do not find the brief reasons provided in the paper to not collect additional data on many other items to be compelling, and would have expected a greater level of detail on Ofgem's considerations to enable more useful and specific responses to be given. A number of stakeholders, including Energy UK, have previously pressed the need to collect all relevant data as part of the SMNCC review to ensure that it is set at an appropriate level and does not undermine the continuing smart meter rollout by being based upon out of date information or incorrect assumptions.

In particular, we would urge Ofgem to reassess its position to not gather data about smart PPM costs. It states that the default tariff cap "does not apply to most prepayment customers, and does not currently include a specific cap level for prepayment customers." However, this ignores that fully interoperable smart meters are covered by the cap at a level currently set identically to the cap for credit customers paying by direct debit. With the continued roll-out of SMETS 2 meters and the enrollment and adoption of SMETS 1 meters, the level of fully interoperable smart prepayment meters covered by the cap will also continue to grow.

In addition, the CMA decided in its review of the Prepayment Charge Restriction (PCR) that there would be no non-pass-through smart allowance in the revised PCR from 1 October 2019. Ofgem should, therefore, ensure that suppliers are able to recover the relevant costs of the smart meter rollout across all of their customers, as per regulatory requirements.

We note that in its November 2018 decision Ofgem committed to considering a specific prepayment method uplift when sufficient data is available.¹ Accordingly, we believe the time is now right for Ofgem to address this issue by collecting the required data, with a view to defining a prepayment-specific uplift if one is required. We acknowledge that Ofgem may not be able to complete this work in time for a consultation in October/November but that is not an appropriate reason to reject necessary data gathering that is relevant.

Finally, Ofgem suggests that it would not release the current SMNCC under its proposed transparency arrangements as it is not relevant. However, Ofgem's contingency plans (options B and C) would both make use of the current SMNCC model, making it relevant for stakeholder's consideration of the review's proposals. We would, therefore, continue to urge Ofgem to ensure that its commitment to transparency extends to providing the current SMNCC model under its proposed transparency arrangements if the contingency plans that rely upon it are taken forward.

Update Paper #3: Having Regard for Carry Forward Balances

Energy UK retains its position, previously outlined in response to Ofgem's initial SMNCC review consultation in May and its consultation on the third cap period in July, that any claw-back in future cap periods would be detrimental upon the success of the continuing smart meter rollout and cannot be justified on costs grounds. Having explicitly set SMNCC for the first and second periods to ensure no reduction in the pace of planned rollouts, Ofgem risks undermining the effectiveness of any obligation and inhibiting the ability of suppliers to invest by introducing unforecastable regulatory risk and setting future allowances below efficiently incurred cost levels.

Update Paper #4: Transparency Arrangements

Energy UK welcomes the improvements that Ofgem has made to the practicalities of the data room exercise since the previous iteration, most notably it being virtual rather than physical. However, we

¹ https://www.ofgem.gov.uk/system/files/docs/2018/11/decision_-_default_tariff_cap_-_overview_document_0.pdf
Paragraph 5.23

have a number of concerns about the proposals Ofgem has put forward which we believe would undermine the effectiveness of the exercise and the accuracy of the SMNCC review.

Firstly, we do not find Ofgem's reasoning for placing the non-confidential SMNCC model within the virtual data room, and excluding entirely individual supplier data, as a compelling justification for its proposal. As a principle, we believe that Ofgem should publish all information that is non-confidential (such as the model) and provide appropriate access to confidential information (such as individual supplier data) within the virtual data room. In doing so, Ofgem would best live up to its commitment to transparency and maximise the benefit of the scrutiny and representations it receives. Ultimately, this would best ensure that the SMNCC allowance is set accurately and minimise the risk that an incorrectly set allowance undermines the continued smart meter rollout. The administrative challenge that Ofgem may face is outweighed by the importance of an accurately-set SMNCC allowance to deliver the rollout.

In addition, we do not agree with the restricted scope of the proposed Permitted Purposes. Energy UK believes that Ofgem has not adequately justified why suppliers could not use the model for other (limited) purposes, such as benchmarking and business planning.

We would also urge Ofgem to reassess its planned timings for the virtual data room. For example, it has not justified why the data room would only open one week into a four-week consultation, limiting the ability of suppliers to scrutinise Ofgem's work. We believe that once Ofgem has received the updated SMIP CBA from BEIS, and updated its model accordingly, it should seek to publish it (in line with our comments on confidentiality above) as soon as possible. In order to allow for suppliers to provide an effective assessment to inform the SMNCC review scrutiny of the model should not be arbitrarily restricted.

I hope that Energy UK's are found useful, and I would be happy to discuss any of the points made above in further detail with Ofgem or any other interested party if it would be beneficial. Please contact me directly on 020 7747 2931 or at steve.kirkwood@energy-uk.org.uk.

Yours sincerely,

Steve Kirkwood
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