

SMNCC & PPM SMNCC Rollout Profile Working Papers

2 March 2021

Introduction

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses. The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

This is a high-level industry view; Energy UK's members may hold different views on particular aspects of the working papers. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

SMNCC Rollout Profile Principles & Options

Energy UK welcomes Ofgem's consideration and examination of how the SMNCC allowance can be set at a level to ensure that suppliers are able to sufficiently recover the costs of continuing to roll out the Government's smart meter programme to their customers. While we agree with all four principles that Ofgem has set out, we believe that it will have to have a level of prioritisation of principles when it comes to its decision, given that there is some friction between the principles themselves.

We recognise that Ofgem must set the cap at a level to protect default tariff customers. However, Ofgem must also be mindful of the wider policy context, give significant consideration to the expected benefits of the smart meter rollout to customers, and ensure that its ultimate decision does not restrict suppliers' ability to fund their rollouts and enable these longer-term customer benefits to be realised through a successful and speedy rollout. We are, therefore, concerned that if Ofgem was to only allow efficient costs to be recovered to suppliers' tolerance levels, rather than the targets under the new BEIS framework, then this would rob the tolerance of its meaning and would risk the target levels not to be met at all. In addition, by using an average rather than market leader, there is a very real risk that any supplier with an above average rollout will not be able to recover efficiently incurred rollout costs, potentially undermining the speed of the overall rollout and realisation of its benefits.

Energy UK does not have any detailed views on the four options put forward by Ofgem at this time, but our members may provide views in their submissions separately. Without sight of underlying data and quantification of the proposed options' direct impacts on suppliers' rollout financing, it will be difficult to come to a firm view and understanding of the outcomes for customers and suppliers. Ofgem must ensure that its spring consultation process allows sufficient time and access to data for suppliers to

effectively scrutinise its proposals and understand the direct impacts upon their rollout plans, and their customers, before inputting their feedback for Ofgem's consideration.

Energy UK notes the possibility of a separate mechanism outside of the SMNCC allowance to readjust suppliers' revenues based on their actual rollout performance. Should Ofgem fail to provide sufficient allowance for suppliers with higher-than-average profiles to recover their efficient costs through the cap it will need to consider some alternative 'top-up' mechanism. In line with our view on Ofgem's advance payments claw-back, given suppliers' long planning lead times any such mechanism would need to provide suppliers with budgetary certainty to enable efficient rollout of smart meters to their customers.

PPM SMNCC Considerations

Energy UK holds similar concerns as those highlighted above for Ofgem's consideration of funding only to a suppliers' tolerance level, rather than target level, which could see the restriction of suppliers' rollout ability and delaying the realisation of longer-term smart meter benefits for PPM customers, whether individually or as a whole.

We would welcome clarification as to the rationale behind Ofgem's different underlying approach to the PPM SMNCC when compared to the approach for credit. For example, it is not clear through the working papers why Ofgem appears to reject anything but an average profile for PPM while entertaining other options for credit. This is particularly surprising given Ofgem's recognition that suppliers with both 'early' and 'late' PPM profiles may have higher efficient costs than those implied by an average profile, and consequently may not be able to recover their efficient costs if Ofgem maintains this position.

Future Reviews

In these two working papers, Ofgem has not highlighted its previous intention of rolling annual reviews of the SMNCC allowance, which would also impact upon suppliers' uncertainty around rollout cost recovery in the long term. We would welcome clarification from Ofgem in its spring consultation as to its plans for such reviews, and their intended scope.

If you would like to discuss the above or any other related matters, please contact me directly on 020 7747 2931 or at steve.kirkwood@energy-uk.org.uk.