



Price Cap: final consultation on updating the credit SMNCC Allowance

E.ON welcomes the opportunity to respond to this consultation.

Overall, the most heated and contentious point of the SMNCC consultation seems to us to relate to the “Advance Payments”, and the potential impacts of retrospective recovery.

While we overall recognise and agree with the need for ongoing reconciliation to ensure fairness for both suppliers and the customers being protected by the price cap, we feel that greater visibility is needed on what is being reconciled, and this reconciliation should be extended to other aspects of the Price Cap, such as industry costs, not just the SMNCC allowance.

We have argued on several occasions that many allowances in the Price Cap (including Headroom) are in our opinion not fit for purpose, i.e. they do not offer sufficient allowance even for an efficient supplier, and it is our opinion that such components need to be reviewed all together to ensure that retrospective reconciliation is not unfairly asymmetric.

While strictly outside the scope of this consultation, we’ve noted in previous discussions with BEIS and in our responses to other consultations on the impact of Covid-19 and other aspects of the Price Cap, that real costs being borne by suppliers (including, but not limited to the additional costs to serve vulnerable customers, additional Third Party Costs incurred in 2020 as a direct result of the Covid Pandemic and various mutualisation costs) are not sufficiently provided for within the Cap, applying unfair stress to the finances of Suppliers.

We encourage Ofgem to fully consult on these elements in conjunction with the SMNCC Advance Payments and a wider review of Headroom to ensure full equality for both suppliers and customers, and note that point 1.10 of Appendix 6 strongly implies that other suppliers would welcome such a consultation.

Furthermore, we believe that there should be a limit to how much “reconciliation” can be made in any given Cap Period to give greater continuity and security to supplier and customer alike. A large adjustment in a single cap period in favour of either customer or supplier will unduly distort the market and would be better spread over a number of cap periods. We further emphasise this point in our response to the consultation on Reviewing the potential impact of Covid-19 on the default tariff cap: cap period seven.

In addition, whilst we have no major concerns with the majority of the proposals made by Ofgem, we have made the following observations where we have cause for concern.

Traditional meter life assumptions

We agree with Ofgem’s proposed meter life assumptions for traditional meters, however we ask Ofgem to note that the application of these assumptions will depend on the date an asset is installed. Under the new rollout framework from BEIS, there is an expectation that there are no traditional assets after June 2025. As advised under audit guidance, any remaining traditional assets at this date would be impaired at a cost to the supplier and we would ask for this to be considered in the SMNCC allowance. We understand the mandate is still under review, we would base the end date of asset life accordingly.



COVID-19 and installation costs

We are supportive of Ofgem's allowance for sunk installation costs in 2020 and 2021 due to the coronavirus pandemic, however, would ask that Ofgem include a review of costs beyond 2021 at the next price cap given the uncertain nature of the pandemic.