

Karen Mayor
Retailpriceregulation@ofgem.gov.uk
By email only

15 June 2021

OVO's response to 'Price Cap: final consultations on updating the credit and PPM SMNCC allowance'

Dear Karen,

OVO firmly believes Smart metering is central to supporting the transition to net zero emissions and will provide customers with innovative energy solutions and cheaper bills. OVO is determined to be a leader on Smart and is investing across our business to unlock real value from the rollout for our customers.

To ensure the continued success of the Smart rollout, it is vital that Ofgem ensures the default tariff cap continues to allow efficient suppliers to recover reasonable costs and enables them to finance their operations. This is especially important at a time when suppliers continue to grapple with the material and unexpected costs arising from the unprecedented economic impact of Covid-19.

While we support the approach that Ofgem is taking to continually assess reasonably incurred costs under the price cap, we are concerned that the Smart metering costs (SMNCC) review proposes to adjust the cap allowance in a way that risks undermining the principle of cost reflectivity and could materially undermine suppliers' financial position at a key point for the rollout. We have summarised our key concerns below.

- **Continuous SMNCC reviews constrains supplier forecast ability** - Ofgem looking to regularly claw back or increase the SMNCC allowance means suppliers will not be able to forecast SMNCC costs with a viable certainty beyond two cap periods at a time. This increased forecast uncertainty should be reflected in the headroom allowance to ensure suppliers are not materially disadvantaged if costs change.
- **Ofgem's Smart rollout profile assumptions results in potential uncertainty** - Changes to Ofgem's SMNCC allowance will mean actual rollout data will be taken into account when it becomes available, and

therefore recognise if rollout is above the tolerance. We welcome this approach as it would provide revenue (in arrears) to reflect the rollout achieved by the market leader. However this approach still introduces forecast uncertainty. For PPM, we have concerns that using a weighted average rather than market leader tolerance will result in an under-recovery where there is an above average rollout profile.

- **Ofgem's SMNCC model data availability** - OVO welcomes the disclosure process for the SMNCC model and we support this being made available for each consultation. This provides transparency to suppliers to support a review of the proposals and understand the key data and approach. We would welcome the opportunity to have access to an updated SMNCC model via the disclosure process alongside the Autumn 2021 consultation for Price Cap period 8.

Given the updates made to the SMNCC model and approach, we believe that any contingency allowance should be based on the SMNCC model. Should Ofgem undertake a contingency allowance for Price Cap period 7, we understand the rationale presented by Ofgem that the rollout profile for Q2 2021 should be used for Q3 and Q4 2021. While we acknowledge that using Q2 forecasts is necessary, where there is no ready alternative, we believe this is likely to impact suppliers who were expecting to accelerate their rollouts.

Should you have any questions or would like to discuss our response bilaterally please feel free to contact policy@ovoenergy.com.

Kind regards,

Samantha Cannons
Regulation Manager