

Consultation

Price Cap – October 2021 consultation on credit and PPM SMNCC allowances

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This is our final consultation on updating the smart metering allowances (the Smart Metering Net Cost Change or SMNCC allowances) for credit and PPM meters in the default tariff cap in time for summer 2022. We would like views from stakeholders with an interest in the level of the default tariff cap. We particularly welcome responses from domestic energy suppliers, consumer groups and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive summary

The default tariff cap ('cap') protects domestic customers on default tariffs. We conduct annual reviews of the Smart Metering Net Cost Change (SMNCC) allowances in the cap for credit and prepayment meters (PPM). These allowances reflect the change in smart metering costs since 2017. We update all future values of the cap when we conclude an annual review.¹ These are the final SMNCC allowances for the next year. The SMNCC allowances for the cap periods beyond this are subject to revision through subsequent annual reviews.

We decided in August 2021 to adopt contingency allowances for cap period seven (October 2021 to March 2022). As a consequence of adopting a contingency allowance, this is now the final consultation for the 2021 annual review and covers cap period eight and beyond.

For cap period seven, the credit non-pass-through SMNCC allowance is £13.59 per typical dual fuel customer, out of a direct debit cap level of £1,319. The PPM non-pass-through SMNCC allowance for cap period seven is -£6.08 per typical dual fuel customer, out of a cap level of £1,350.²

Unchanged positions from August 2021 decisions

In our August 2021 decision documents, we said that most of the decisions we discussed for cap period seven would remain appropriate for cap period eight and beyond. We therefore maintain the majority of the positions from the August 2021 decisions for this consultation.

New proposals since August 2021 decisions

The SMNCC model currently overestimates traditional PPM installations in two ways.

The SMNCC model's estimate of 2020 traditional PPM installations is significantly higher than reality. This is a result of 2020 meter installations being lower than usual due to COVID-19. To correct this, we propose to implement payment method-specific COVID-19 parameters in the model. We propose to set the PPM-specific COVID-19 parameter to 70%, because suppliers achieved 70% of their expected 2020 installations of smart PPM.³ The reduction in

¹ When we are unable to conclude our annual review and have to set a contingency allowance, we only update the SMNCC for the next cap period.

² All values are measured for the typical consumption values used to set the cap (3,100kWh for electricity and 12,000kWh for gas). Cap levels are GB averages, including VAT.

³ This was calculated using Request for Information data.

smart meter installations did not affect the number of traditional meter installations modelled for credit, so we set the credit-specific COVID-19 parameter to 100%.

The SMNCC model assumes that traditional PPM installed from 2012 onwards are always replaced by traditional PPM when they expire, which increases the number of traditional meters installed in any year. However, the New and Replacement Obligation (NRO) requires energy suppliers to take all reasonable steps to install a smart meter wherever a meter is replaced.⁴ We propose to amend formulae in the model to reflect this, for both credit and PPM. This has no practical impact on the credit SMNCC.

These modelling considerations had a practical impact on the PPM SMNCC following our August 2021 PPM decision when we set the traditional PPM asset lifetimes to 12 years for electricity and 10 years for gas. This led to an increase in the modelled expiry of traditional PPM. Given the differences between the meter asset lives for credit and PPM, there has not been a similar impact on the SMNCC values for credit.

These proposed changes will result in revised PPM SMNCC values for previous cap periods. We would correct for this through advanced payments.

Proposed SMNCC values

For cap period eight, we propose to set the credit SMNCC at £8.79 per typical dual fuel customer and the PPM SMNCC at -£10.46 per typical dual fuel customer. These are both lower than the SMNCC values for cap period seven (£13.59 and -£6.08 respectively).

Should suppliers consider that the current market developments linked to high gas prices will have any impacts on the revenue required through the SMNCC allowance, we encourage them to submit comments in response to the working paper.

Next steps

We are seeking views by 9 November 2021. We intend to take a decision ahead of the next cap update in early February 2022. This would take effect from cap period eight, which begins on 1 April 2022.

⁴ The NRO is part of Electricity Supply Licence SLC 39.7 & Gas Supply Licence SLC 33.7.
<https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

1. Consultation process

Subject of this consultation

1.1. The default tariff cap ('cap') protects approximately 15 million domestic customers on standard variable and default tariffs (which we refer to collectively as 'default tariffs'), ensuring that they pay a fair price for their energy, reflecting its underlying costs. The cap is one of the key activities which fall within the outcome "consumers pay a fair price for energy and benefit from rights and protections" within our Forward Work Programme for 2021-22.⁵ We set the cap by considering the different costs suppliers face. The cap is made up of a number of allowances which reflect these different costs.

1.2. One cost to suppliers is the net cost of installing and operating smart meters. We reflect this in the cap through two allowances. The operating cost allowance includes the cost of smart metering in the 2017 baseline year (alongside other operating costs).⁶ The Smart Metering Net Cost Change (SMNCC) allowance reflects the change in smart metering costs since 2017.

1.3. The SMNCC allowance comprises a 'pass-through' element covering industry charges relating to smart metering and a 'non-pass-through' element covering suppliers' smart metering costs.

- We update the pass-through element as part of the six-monthly cap updates. This element is not the focus of this consultation.
- We use a forward-looking modelled approach to set the non-pass-through element for future cap periods. This working paper focuses on the non-pass-through SMNCC allowances (which we refer to as 'the SMNCC' for the remainder of this document).

⁵ Ofgem (2021), Forward work programme 2021/22
<https://www.ofgem.gov.uk/publications-and-updates/forward-work-programme-202122>

⁶ We index this allowance with inflation as part of the six-monthly cap update.

Annual reviews

1.4. We set the SMNCC allowances in the cap for the duration of the cap.

1.5. We review the SMNCC annually and update all future values of the cap when we conclude an annual review.^{7,8} These are the final SMNCC allowances for the next year. The SMNCC allowances for the remaining cap periods beyond this are subject to revision through subsequent annual reviews.

1.6. Table 1.1 below provides a simplified illustration of this annual review process.

Table 1.1: Simplified illustration of annual review process

	Annual review Y	Annual review Y+1	Annual review Y+2
Cap period X	Annual review sets final SMNCC for these cap periods	N/A (historical cap period)	N/A (historical cap period)
Cap period X+1			
Cap period X+2	Annual review updates SMNCC for these cap periods (but subject to later annual review)	Annual review sets final SMNCC for these cap periods	N/A (historical cap period)
Cap period X+3			
Cap period X+4		Annual review updates SMNCC for these cap periods (but subject to later annual review)	Annual review sets final SMNCC for these cap periods
Cap period X+5			

1.7. When we are unable to conclude our annual review as scheduled, this affects the timing of our annual review. We discuss in the next section how this has affected our timings in practice.

⁷ When we are unable to conclude our annual review and have to set a contingency allowance, we only update the SMNCC for the next cap period.

⁸ We normally announce the conclusions of our review ahead of our August cap announcement.

Consultation stages

Process to date

1.8. In April 2021, we published two consultations on the SMNCC allowances in the cap. We published one consultation for credit meters ('April 2021 credit consultation') and one consultation for prepayment (PPM) meters ('April 2021 PPM consultation').⁹ We refer to these collectively as the 'April 2021 consultations'. These consultations were part of our annual review of the SMNCC allowances to set these allowances from October 2021 onwards (ie from cap period seven, which runs from October 2021 to March 2022). We refer to this as the '2021 Annual Review'.¹⁰

1.9. Following the Department for Business, Energy & Industrial Strategy's (BEIS) decision on its new smart meter rollout framework ('framework'), we published an addendum to the April 2021 consultation ('addendum').^{11,12} We explained that we intended to adopt a contingency allowance for cap period seven.

1.10. In August 2021, we published two decisions to set the SMNCC allowances for cap period seven – one for credit meters ('August 2021 credit decision') and one for PPM ('August 2021 PPM decision').¹³ We refer to these collectively as the 'August 2021 decisions'. In these decisions, we confirmed our proposal from the addendum to set a contingency allowance for cap period seven. We said that we would publish a short consultation for cap

⁹ Ofgem (2021), Price Cap – final consultation on updating the credit SMNCC allowance.

<https://www.ofgem.gov.uk/publications/price-cap-final-consultation-updating-credit-smncc-allowance>

Ofgem (2021), Price Cap – final consultation on updating the PPM SMNCC allowance.

<https://www.ofgem.gov.uk/publications/price-cap-final-consultation-updating-ppm-smncc-allowance>

¹⁰ This name is based on when we originally intended to conclude this annual review. Given the timing changes discussed in this section, we now expect to conclude this annual review in February 2022 following this additional short consultation this autumn, ie this consultation document. However, we maintain the name to avoid confusion with the annual review that we would conclude in August 2022 based on our normal timings (ie the 2022 Annual Review).

¹¹ BEIS (2021), Smart Meter Policy Framework post 2020: Government response to a consultation on minimum annual targets and reporting thresholds for energy suppliers.

<https://www.gov.uk/government/consultations/smart-meter-policy-framework-post-2020-minimum-annual-targets-and-reporting-thresholds-for-energy-suppliers>

¹² Ofgem (2021), Price Cap – addendum to consultations on reviewing the credit and PPM SMNCC allowances.

<https://www.ofgem.gov.uk/publications/price-cap-addendum-consultations-reviewing-credit-and-ppm-smncc-allowances>

¹³ Ofgem (2021), Price Cap – Decision on credit SMNCC allowance.

<https://www.ofgem.gov.uk/publications/price-cap-decision-credit-smncc-allowance>

Ofgem (2021), Price Cap – Decision on PPM SMNCC allowance.

<https://www.ofgem.gov.uk/publications/price-cap-decision-ppm-smncc-allowance>

period eight (which runs from April to September 2022) onwards in early autumn 2021.¹⁴ (This consultation fulfils this role – see the next section ‘Scope of consultation’ for an explanation of what this consultation covers).

1.11. Table 1.2 below shows how we now expect the annual review process to operate, in light of our contingency decision for cap period seven. This includes the future annual reviews which we expect to conclude in August 2022 (‘2022 Annual Review’) and August 2023 (‘2023 Annual Review’).

¹⁴ Ofgem (2021), Price Cap – Decision on credit SMNCC allowance, paragraph 1.12. <https://www.ofgem.gov.uk/publications/price-cap-decision-credit-smncc-allowance>
Ofgem (2021), Price Cap – Decision on PPM SMNCC allowance, paragraph 1.11. <https://www.ofgem.gov.uk/publications/price-cap-decision-ppm-smncc-allowance>

Table 1.2: Expected timings for annual review process

	Contingency decision (August 2021)	2021 Annual Review (now expect decision in February 2022)	2022 Annual Review (expect decision in August 2022)	2023 Annual Review (expect decision in August 2023)
Cap period seven (October 2021 to March 2022)	Set final SMNCC	N/A (historical cap period)	N/A (historical cap period)	N/A (historical cap period)
Cap period eight (April to September 2022)	Did not affect SMNCC for periods beyond cap period seven, given this was a contingency decision	Sets final SMNCC		
Cap period nine (October 2022 to March 2023)		Updates SMNCC (but subject to later annual review)	Sets final SMNCC	
Cap period ten (April to September 2023)			Updates SMNCC (but subject to later annual review)	
Cap period eleven (October to December 2023)			Updates SMNCC (but subject to later annual review)	

Scope of consultation

1.12. This consultation is the final consultation for the 2021 Annual Review. We intend to set the SMNCC allowance for cap period eight. We also intend to set SMNCC allowances for all remaining cap periods beyond cap period eight, although we then intend to update these SMNCC allowances as part of subsequent annual reviews.

1.13. This consultation covers both the credit and PPM SMNCC allowances. We have produced a single consultation given the similarities between our proposals for these areas. We indicate where a proposal only applies to one meter type.

1.14. For cap period eight, we propose to set the credit SMNCC at £8.79 per typical dual fuel customer and the PPM SMNCC at -£10.46 per typical dual fuel customer. Appendices 1 and 2 show the detail on the proposed credit SMNCC and PPM SMNCC values for individual fuels, as well as the proposed values for subsequent cap periods.¹⁵

1.15. Separately, we have published a working paper as the first step for our 2022 Annual Review.¹⁶ The deadline for responding to that working paper is the same as for this consultation.

Disclosure

1.16. Alongside this consultation, we are carrying out a similar disclosure process as for our previous final consultations. This allows stakeholders to inspect the SMNCC model and their advisers to inspect certain other pieces of analysis, in each case subject to confidentiality restrictions. We have published information about this disclosure process on our website.¹⁷

1.17. If you would like to participate in the disclosure process and have not yet registered your interest, please contact us as soon as possible at:

RetailPriceRegulation@ofgem.gov.uk.

Future publications

1.18. We will consider feedback from this consultation before deciding on any changes to the SMNCC allowances as part of our 2021 Annual Review. For credit, there are already SMNCC allowances defined for the remaining cap periods, so we will need to decide whether to amend any of these values. For PPM, there are no SMNCC allowances defined for the remaining cap periods, so at a minimum we will need to set a value for the upcoming cap period eight. We will then also need to decide whether to set PPM SMNCC allowances for the other remaining cap periods. For both credit and PPM, we would intend to set SMNCC allowances for all remaining cap periods, but if we had to set a contingency allowance then we would only update the SMNCC for the upcoming cap period eight.

¹⁵ The PPM SMNCC values in Appendix 2 are before the PPM cost offset is applied, while -£10.46 is the final PPM SMNCC after the PPM cost offset is applied.

¹⁶ Published on the same day as this consultation and available on our website.

¹⁷ Ofgem (2021), Price Cap – Disclosure arrangements for autumn 2021 consultations.

<https://www.ofgem.gov.uk/publications/price-cap-disclosure-arrangements-autumn-2021-consultations>

1.19. We intend to publish a decision in early February 2022, ahead of announcing the cap level for cap period eight. Any changes would take effect from 1 April 2022.

Related publications

1.20. Key related publications:

- August 2021 credit SMNCC decision: <https://www.ofgem.gov.uk/publications/price-cap-decision-credit-smncc-allowance>
- August 2021 PPM SMNCC decision: <https://www.ofgem.gov.uk/publications/price-cap-decision-ppm-smncc-allowance>
- BEIS June 2021 decision on minimum installation requirements under the framework: <https://www.gov.uk/government/consultations/smart-meter-policy-framework-post-2020-minimum-annual-targets-and-reporting-thresholds-for-energy-suppliers>

How to respond

1.21. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

1.22. We do not ask specific questions in this document. Rather, we welcome views on any of the matters discussed in this consultation.

1.23. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.24. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.25. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.26. If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 6.

1.27. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

1.28. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

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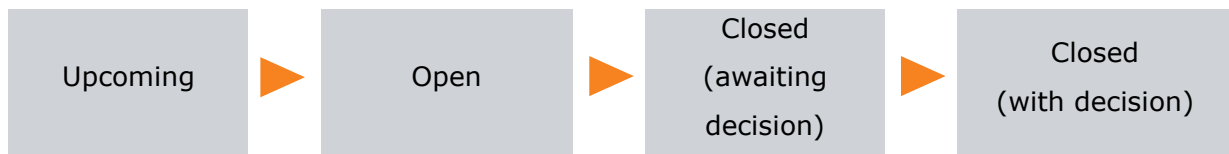
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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



2. Unchanged positions from the August 2021 decisions

Section summary

We propose maintaining the same positions as our August 2021 decisions, except where stated. We describe our approach to updating our modelling in certain areas. We set out our proposal that, if we require a contingency allowance, we will use our revised SMNCC model as a starting point and then adjust this after considering stakeholder feedback.

Maintaining positions from August 2021 decisions

2.1. Our August 2021 decisions determined our positions for cap period seven, which we used to update the SMNCC model for that cap period. As set out in those decisions, our intention was that we would maintain the same positions for future cap periods. We said that our decisions for cap period seven already represent what we consider is the best approach for taking into account the revised start date for the new BEIS rollout framework.¹⁸

2.2. We consider that maintaining the cap period seven decisions remains correct in most areas, for the following reasons:

- The considerations which led to these decisions were largely not specific to cap period seven. Rather, we were seeking to identify the appropriate overall approach to each issue, and then to use this to calculate the SMNCC for cap period seven.
- The SMNCC model operates on a calendar year basis. For a winter cap period, which overlaps two calendar years, the SMNCC is the average of the annual SMNCC values for these two years. For example, for cap period seven, the SMNCC is the average of the annual SMNCC values for 2021 and 2022. Therefore,

¹⁸ Ofgem (2021), Price Cap – Decision on credit SMNCC allowance, paragraph 1.11. <https://www.ofgem.gov.uk/publications/price-cap-decision-credit-smncc-allowance>
Ofgem (2021), Price Cap – Decision on PPM SMNCC allowance, paragraph 1.10. <https://www.ofgem.gov.uk/publications/price-cap-decision-ppm-smncc-allowance>

to take decisions on cap period seven, we have already considered the appropriate SMNCC for 2022. For a summer cap period, which falls entirely within one calendar year, the SMNCC is the annual SMNCC value for that year. For example, the SMNCC for cap period eight is the annual SMNCC value for 2022. Decisions relating to 2022 which were appropriate as part of the SMNCC calculation for cap period seven should therefore also be appropriate for cap period eight, unless there have been new developments.

- We do not consider that there have been significant developments affecting the smart metering rollout since our August 2021 decisions that would require our approach to change. The rollout framework in 2022 remains as defined by BEIS's June 2021 decision on the annual tolerances.¹⁹ We are not aware of significant developments in relation to the technical or commercial nature of the smart meter rollout – and we would not expect such developments within a few months. While COVID-19 continues to be a source of uncertainty, we do not consider that the COVID-19 situation has changed significantly since August 2021.

2.3. In most areas, we therefore propose to make the same decisions for the 2021 Annual Review (which will set SMNCC values for cap period eight and beyond) as for cap period seven. This means that we would use the inputs and calculations that are currently in the SMNCC model for cap period seven.

2.4. We list in Appendices 3 and 4 all of the proposals (for credit and PPM respectively) to maintain positions from the August 2021 decisions as part of the 2021 Annual Review. For further information on these proposals, please see our August 2021 decisions.

2.5. There are a small number of areas where we propose to make changes from our August 2021 decisions. We describe these in several places in this consultation.

- In Chapter 3, we discuss the areas where we are making new proposals beyond our August 2021 decisions.

¹⁹ BEIS (2021), Smart Meter Policy Framework post 2020: Government response to a consultation on minimum annual targets and reporting thresholds for energy suppliers.
<https://www.gov.uk/government/consultations/smart-meter-policy-framework-post-2020-minimum-annual-targets-and-reporting-thresholds-for-energy-suppliers>

- We discuss specific points affecting the modelling and data in the 'Considering potential model updates' section below.
- Our August 2021 decisions included a decision to adopt a contingency allowance (for both credit and PPM) and a decision to use the SMNCC values from the April 2021 consultation rather than the modelled SMNCC (for credit). These decisions were specific to cap period seven, rather than being generally applicable. We therefore do not propose to make the same decisions for our 2021 Annual Review.

Considering potential model updates

Advanced payments

2.6. Advanced payments reflect when suppliers have received payment in advance for smart metering costs they have not yet incurred. The SMNCC model calculates advanced payments at a particular point in time (currently the start of cap period seven). In order to calculate advanced payments at a different point in time (eg the start of cap period eight), we need to update the calculations so that they take into account which cap periods are historical and which are in the future. This is a mechanical change to the calculations, rather than being a change to our policy intent for calculating advanced payments.

2.7. This change will allow us to include cap period seven within our calculation of advanced payments. We have already flagged our decision to do this. In our August 2021 decisions, we said that we would consider the difference between the allowance provided and our modelled assessment of the SMNCC for cap period seven.²⁰

Smart Meters Annual Information Request data

2.8. As part of an annual review, we would usually update key inputs using the Smart Meters Annual Information Request (SMAIR) data. However, this is available on an annual basis (each spring). We therefore do not have new SMAIR data to update the items where

²⁰ Ofgem (2021), Price Cap – Decision on credit SMNCC allowance, paragraph 4.20. <https://www.ofgem.gov.uk/publications/price-cap-decision-credit-smncc-allowance>
Ofgem (2021), Price Cap – Decision on PPM SMNCC allowance, paragraph 6.41. <https://www.ofgem.gov.uk/publications/price-cap-decision-ppm-smncc-allowance>

we included new data as part of the cap period seven decision. The SMNCC model already includes the latest information available.

Rollout data

2.9. We propose to use the same rollout profiles as the August 2021 decisions. The rollout profiles from the August 2021 decisions already reflect BEIS's framework, and there have been no subsequent changes to this framework.

2.10. The only values which we could consider changing are the levels of rollout in 2021. New data has (or will) become available on the actual levels of rollout in Q2 and Q3 2021, because BEIS receives rollout data from large energy suppliers on a quarterly basis. We could use this data to replace the current values used, which are based on suppliers' forecasts for Q2 2021. However, we consider that the values currently used are sufficiently accurate for our 2021 Annual Review. We explain the reasoning for each of Q2 and Q3 2021 separately below.

2.11. BEIS published Official Statistics based on the Q2 2021 data on 26 August 2021. It would therefore be possible to obtain the Q2 2021 rollout data and use this to update the rollout profiles. However, we expect that suppliers' rollout would largely be in line with their forecasts, especially given that there were no major restrictions introduced during Q2 2021 which could have had an unexpected impact on suppliers' rollout. As an illustration, looking at the aggregate figures, the number of domestic smart meters that the large energy suppliers rolled out in Q2 2021 were below expectations, but not by a large extent.^{21,22} We do not consider that it would be proportionate to make further updates to the rollout models to include this new data, because we do not expect the figures to differ significantly for the reasons set out above.

2.12. BEIS expects to publish the Q3 2021 Official Statistics on 25 November 2021. This will be after the end of this consultation. In principle, we could update the rollout profiles based on the Q3 2021 rollout data. However, at this stage, we expect that suppliers' forecasts for Q2 2021 would remain a reasonable estimate of the number of smart meters that suppliers install in Q3 2021. This is especially the case given that we do not expect Q3

²¹ This is based on the published Official Statistics. We have not requested or analysed the disaggregated data.

²² We would not use these aggregate figures to calculate rollout profiles. For example, for credit, we would use the market leader's rollout.

2021 to be affected significantly differently by COVID-19 than Q2 2021. We therefore do not consider that the likely gains in accuracy would be sufficiently large to justify making structural changes to the rollout models at the post-consultation stage.

2.13. In spring 2022, we will receive data on rollout in 2021 through the SMAIR. We intend to use this data to update the rollout profiles as part of our 2022 Annual Review. Should there be any differences between the rollout profile we use for the 2021 Annual Review and the revised rollout profile we use for the 2022 Annual Review, we would take this into account through advanced payments. This means that the impact of any inaccuracy in the rollout values would be temporary (at an aggregate level across suppliers).

Other data updates

2.14. We do not propose to make other data updates for cap period eight.

Contingency allowance

2.15. As for each review of the SMNCC, we need to consider what the contingency SMNCC allowance should be, in the event that we cannot complete this review on time.

2.16. We need a contingency SMNCC allowance because we must set the level for cap period eight by a fixed date. A contingency allowance therefore ensures that there is still a reasonable SMNCC allowance in place, even if we are not able to conclude our review in time.

2.17. Our August 2021 decisions only edited the relevant model used to set the cap (Annex 5 of standard condition 28AD of the electricity and gas supply licences) for cap period seven. We do not consider that the SMNCC values currently in the Annex 5 model for cap period eight – which would apply by default in the event that we did not take a further decision – are the best available contingency SMNCC values, for the following reasons:

- the current credit SMNCC values in the Annex 5 model for cap period eight were set through our August 2020 decision, and therefore do not reflect our latest data and considerations.
- the PPM values in the Annex 5 model for cap period eight are currently blank, and therefore do not provide an estimate of the SMNCC.

2.18. If we require a contingency allowance, we propose to use the updated SMNCC model as a starting point,²³ which we would adapt to set the contingency allowance (by either increasing or decreasing the SMNCC). The precise adjustment that we would apply would depend on the issues raised by stakeholders in response to the consultation. The advantages of this approach are that it would: use SMNCC values which relate specifically to cap period eight, incorporate the most recent data available, and incorporate the additional refinements we are proposing in this consultation.

2.19. However, if we considered (after examining stakeholders' representations) that there were specific issues for cap period eight which meant that we could place limited or no weight on the updated SMNCC model to set the contingency allowance, then we propose to use the same SMNCC values as in cap period seven. These are the latest values that we have used to set the SMNCC, and therefore incorporate the most recent data available. These values would be £13.59 per typical dual fuel customer for credit and -£6.08 per typical dual fuel customer for PPM (post-offset).

2.20. In a future review, we would consider any difference between any contingency allowance provided and our revised assessment of the SMNCC for cap period eight. We would take this difference into account through advanced payments. This would ensure that the calculation of the SMNCC eventually took into account the appropriate level of efficient costs.

²³ The values we would use as a starting point are set out in Appendices 1 and 2.

3. New proposals since August 2021 decisions

Section summary

This section details new proposals that were not part of our August 2021 decisions. Both proposals only affect the level of the PPM SMNCC.

3.1. In our August 2021 PPM decision, we decided to set the traditional PPM asset life to 12 years for electricity and 10 years for gas.²⁴ This was a reduction of the traditional PPM asset life values we proposed in our April 2021 PPM consultation.²⁵

3.2. The assumptions on traditional PPM asset life affect the number of traditional PPM that expire each year in the SMNCC model. Therefore, our reduction in the assumed traditional PPM asset life increased the number of traditional PPM that need to be replaced over the life of the cap. The SMNCC model assumes that expiring traditional meters are replaced with smart meters, as long as the number of meters that need to be replaced does not exceed the smart meter rollout. If it does exceed rollout, the expired meters are assumed to be replaced by traditional meters.

3.3. In the August 2021 PPM decision, we highlighted that this had increased the model's assumption for the number of traditional PPM installations in 2020. This was because there were not enough smart meter installations in 2020 to cover all of the model's estimated number of expired traditional meters in 2020. This number is unrealistically high considering that COVID-19 led to limitations on entering customers' homes.

3.4. Furthermore, following our decision on meter ages, the SMNCC model assumes that some of the traditional PPM installed in earlier years (2011 is the starting year in the model) will expire by the end of the current price cap. The model assumes that traditional PPM that were installed in 2012 and 2013 (and expire in 2022 and 2023) are replaced by traditional PPM. In reality, energy suppliers are required by the New and Replacement Obligation

²⁴ Ofgem (2021), Price Cap - Decision on PPM SMNCC allowance, paragraph 3.11.

<https://www.ofgem.gov.uk/publications/price-cap-decision-ppm-smncc-allowance>

²⁵ Our April 2021 consultation proposal was 14 years for electricity and 12 years for gas.

Ofgem (2021), Price Cap - final consultation on updating the PPM SMNCC allowance, paragraph 4.13.

<https://www.ofgem.gov.uk/publications/price-cap-final-consultation-updating-ppm-smncc-allowance>

(NRO) to take all reasonable steps to install a smart meter wherever a meter is replaced or where a meter is installed for the first time.²⁶ This assumption had no practical impact on our calculation of the PPM SMNCC previously. However, it now impacts the calculation following the reduction of the traditional PPM asset life assumptions.

3.5. We considered in the August 2021 PPM decision that these two impacts mean the model needs to be corrected, to ensure that it reflects what will happen in practice when a traditional PPM reaches the end of its life. However, we recognised that we had not consulted on making such a change to the model.

3.6. We therefore stated in the August 2021 PPM decision that we would consult on the required changes as part of the consultation for cap period eight. In this chapter, we detail these proposed changes.

Correcting for overestimation of traditional PPM installations during COVID-19

Context

3.7. COVID-19 meant that there were fewer meter installations in 2020. From mid-March 2020, in line with Government guidance, energy suppliers prioritised emergency metering work and supporting those in vulnerable circumstances.

3.8. As COVID-19 was an unexpected event, the SMNCC model did not originally have a mechanism to take this into account. As a result, it was overestimating the number of meter installations in 2020. To correct for this, in the August 2020 credit SMNCC decision we decided to introduce a COVID-19 parameter which reduced the estimated number of meter installations in 2020.²⁷ There was a single COVID-19 parameter for both credit and PPM.

3.9. However, actual 2020 smart meter rollout was higher than the expected 2020 smart meter rollout considered in our August 2020 decision. This meant that the SMNCC model's

²⁶ The NRO is part of Electricity Supply Licence SLC 39.7 & Gas Supply Licence SLC 33.7. <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

²⁷ Ofgem (2020), Reviewing smart metering costs in the default tariff cap: August 2020 decision, paragraph 3.4. <https://www.ofgem.gov.uk/publications/decision-reviewing-smart-metering-costs-default-tariff-cap>

estimate of traditional meter installations in 2020, using the assumed meter asset lifetimes at the time, was no longer unrealistically high. We therefore set the COVID-19 parameter to 100%. This is equivalent to the model assuming that the number of traditional meters expiring in 2020 was unaffected by COVID-19. Therefore, the parameter had no impact in the model.

3.10. We decided in our August 2021 PPM SMNCC decision to reduce the PPM asset lifetimes in the model. This has increased the number of traditional PPM assumed to have expired in 2020. As actual rollout of smart meters in prepayment mode (smart PPM) in 2020 was not high enough to replace all of the expiring meters, the model assumes that the remaining expiring meters needed to be replaced by traditional PPM installations. The model's estimate of 2020 traditional PPM installations is now too high compared to actual 2020 traditional PPM installations.

3.11. We note that suppliers should be installing a Smart Metering Equipment Technical Specifications 2 (SMETS2) meter wherever a meter is replaced.²⁸ From a regulatory compliance perspective, we therefore expect the number of traditional meter installations to be low and only in those exceptional circumstances where suppliers are not able to install a SMETS2 meter.

Proposals

3.12. We propose to implement payment method-specific COVID-19 parameters in the SMNCC model. This is because the reduction in PPM asset lifetimes affected only PPM, so we need a PPM-specific adjustment.

3.13. We propose to set the PPM-specific COVID-19 parameter to 70%. This assumes that the number of traditional meters expiring in 2020 would be at 70% of the level that it would have been absent COVID-19. This assumption is based on 2021 Request for Information

²⁸Under the NRO, energy suppliers are required to install a smart meter when a traditional meter reaches the end of its life or is defective, unless there is good reason. Therefore, if a supplier had access to a customer's property during COVID-19, it should have taken all reasonable steps to install a smart PPM rather than a traditional PPM.

BEIS (2021), Smart Meter Policy Framework post 2020: Government response to a consultation on minimum annual targets and reporting thresholds for energy suppliers, Annex B, 14.

<https://www.gov.uk/government/consultations/smart-meter-policy-framework-post-2020-minimum-annual-targets-and-reporting-thresholds-for-energy-suppliers>

(RFI) data that showed suppliers achieved 70% of their expected 2020 smart PPM installations.

3.14. We propose to set the credit-specific COVID-19 parameter to 100%, meaning that there is no impact on the credit SMNCC. This is because the model's estimate of 2020 traditional credit meter installations is already representative of actual 2020 traditional credit meter installations, even with no adjustment applied.

Considerations

3.15. We need to adjust the SMNCC model's calculation of traditional PPM installations to reflect the reality in 2020, as otherwise the PPM SMNCC would not reflect the true costs of the smart meter rollout. As the impact we want to reflect is from COVID-19, it is logical to use the COVID-19 parameter to do this. This is also the easiest and quickest way to make this adjustment, rather than constructing a new mechanism.

Setting the value of the COVID-19 parameter

3.16. We collected information on suppliers' expected and actual smart meter installations in 2020 through our February 2021 RFI. The weighted average percentage of their expected 2020 smart PPM installations that suppliers managed to achieve was 70%. We therefore propose to set the PPM COVID-19 parameter to 70%.

3.17. The calculation used a sample of 7 suppliers. We started with all suppliers with at least 1% domestic energy market share, which was 12 suppliers. We excluded one due to having no PPM customers, and 4 other suppliers were excluded due to missing data or having zero actual or expected 2020 PPM installations (which would have caused division errors in the calculation). We used each supplier's December 2020 PPM customer numbers to set the weights.²⁹

3.18. By using data on smart PPM installations, we are assuming that the impact of COVID-19 on 2020 traditional PPM installations is not significantly different from the deviation of

²⁹ This allows our calculation to take the size of each supplier into account. The size of a supplier could affect their meter installations.

2020 smart PPM installations from suppliers' expectations. This can be broken down into two assumptions:

- **the deviation of 2020 smart PPM installations from suppliers' expectations was primarily due to COVID-19.**³⁰ We consider it reasonable to assume that COVID-19 was the primary factor that affected all meter installations in 2020 (after taking into account that the smart meter rollout would have been the biggest factor affecting the number of traditional meter installations). This is based on internal monitoring of the smart meter rollout and factors impacting it in 2020.
- **COVID-19 impacted smart PPM installations and traditional PPM installations similarly.** During lockdown, a greater proportion of traditional meters was installed than during periods unaffected by COVID-19. This is because traditional meters tend to be used for emergency and urgent fault replacement work, and the meter installations during lockdown were more likely to be due to emergencies. Considering this, one possible sense-check of the SMNCC model's estimate of 2020 traditional meter installations, when the 70% parameter is used, is to compare it to actual data. For example, with a 70% parameter, the model's estimate of 2020 domestic traditional electricity meter installations is 138,611, while Elexon data shows that there were 149,181 traditional electricity meter installations in 2020.^{31,32} We consider that this shows that setting the parameter to 70% gives us an appropriate level of accuracy, as the Elexon data includes non-domestic traditional meter installations as well.³³ As and when other reliable and relevant data that can be used to check and refine

³⁰ Two suppliers provided information on when they had set their expectations for 2020 smart PPM installations. Both had set them either in 2019 or at the start of 2020, so we do not consider it likely that their expectations would have been impacted by COVID-19. Another stated that their expectations were calculated based on their initial 2020 budget. We consider it reasonable to assume this budget would have been set at the start of 2020 or before. We have also seen no evidence to suggest the other suppliers in our sample took COVID-19 into account when setting their meter installation expectations for 2020.

³¹ Elexon (2021), Smart Meter Technical Detail Report. <https://www.elexon.co.uk/data/smart-meter-technical-detail-report/>

³² This is the model's estimate after the changes proposed in the next section of this chapter are implemented as well. If we were to make no adjustment to the COVID-19 parameter for PPM, and only implement the changes proposed in the next section of this chapter, the model would estimate 239,370 domestic traditional electricity meter installations in 2020.

³³ We know from information provided by BEIS that there were some non-domestic traditional meter installations in 2020.

our numbers become available, we will take them into consideration. This could result in changes to the COVID-19 parameter.

3.19. As can be seen in Table 3.1, the proposed change in the COVID-19 parameter for PPM would, before the PPM cost offset is applied, reduce the electricity PPM SMNCC in cap period eight by 29p and the gas PPM SMNCC in cap period eight by 49p.³⁴ Once the PPM cost offset is applied, there is no impact on the electricity PPM SMNCC.

3.20. The proposed change will have a downward impact on the PPM SMNCC values calculated for previous cap periods. We would correct for this through advanced payments.

3.21. The COVID-19 parameter works by reducing the number of traditional PPM that are assumed to have expired in 2020. This in turn reduces the number of PPM installations (smart or traditional) that are needed to replace expired meters in 2020. As a consequence of reducing the number of traditional PPM that expire in 2020 in the model, there will be an increase in the number of traditional PPM expiring in subsequent years (as they will need to expire eventually). This impact on the PPM SMNCC would be spread across all years after 2020, as can be seen in Table 3.1. We consider this is reasonable, as we know from the meter age data we collected from suppliers that there are meters that last beyond our meter lifetime assumptions.

³⁴ As the smart meter rollout continues, it will erode the potential additional costs of serving PPM customers with a traditional meter. That means the SMNCC allowance determined by our model will grow increasingly large and negative. However, we decided that we would not use this to reduce the PPM cap level until the potential additional PPM costs were fully recovered from PPM customers. This is the PPM cost offset. We decided to apply it on a per cap period basis in our August 2021 decision. Ofgem (2021), Price Cap - Decision on PPM SMNCC allowance, paragraph 3.89. <https://www.ofgem.gov.uk/publications/price-cap-decision-ppm-smncc-allowance>

Table 3.1 - Impact of proposed COVID-19 parameter on the PPM SMNCC

Impact on PPM SMNCC		Cap period five	Cap period six	Cap period seven	Cap period eight	Cap period nine	Cap period ten	Cap period eleven
		Oct 20 - March 21	April 21 - Sept 21	Oct 21 - March 22	April 22 - Sept 22	Oct 22 - March 23	April 23 - Sept 23	Oct 23 - Dec 23
No cost offset	Electricity	-0.30	-0.29	-0.29	-0.29	-0.30	-0.30	-0.30
	Gas	-1.22	-1.55	-1.26	-0.49	-0.50	-0.50	-0.50
After cost offset	Electricity	0	0	0	0	0	0	0
	Gas	-1.22	-1.55	-1.26	-0.49	-0.50	-0.50	-0.50

Note: All values are £/customer, nominal. These values reflect only the impact of the proposed COVID-19 parameter and not of any of our other proposals. This impact would apply from 1 January 2021, when the prepayment level of the default tariff cap came into effect, due to advanced payments.

Correcting for overestimation of traditional meter installations in 2022-23

Context

3.22. The SMNCC model looks at two stocks of traditional meters in its calculations - those installed before 2012 and those installed from 2012 onwards (primarily in 2012-13). Currently, it calculates the number of traditional meters that need to be installed in a year by adding up:

- the number of metering points needing a new meter, but which cannot take a smart meter due to home area network (HAN) issues;³⁵
- meters needed for new builds, and the number of expired traditional meters of those installed before 2012, with no HAN issues but without enough smart meters to cover them; and

³⁵ The HAN is a secure network that links devices within homes. The gas meter, electricity meter and in-home display are paired to a communications hub that is installed with, or near, the electricity meter.

- the number of expired traditional meters of those installed 2012 onwards.

3.23. For the expired traditional meters installed before 2012, the calculation considers whether they can be replaced by smart meters, using the average rollout profile.³⁶ If there are not enough smart meter installations to replace all of the expired traditional meters, the model assumes traditional meter installations make up the difference. However, for the expired traditional meters installed 2012 onwards, the model assumes that these meters are always replaced by other traditional meters.

3.24. This is a purely mechanical issue and there is no policy reason for this to be the case. In fact, since 30 June 2019, the NRO requires energy suppliers to take all reasonable steps to install a SMETS2 meter wherever a meter is replaced or where a meter is installed for the first time.^{37,38}

3.25. Following our August 2021 PPM decision to reduce the assumed PPM asset lifetimes, the SMNCC model now assumes an increased number of traditional PPM installed in 2012-13 to expire by 2022 and 2023. Consequently, the model calculates unrealistically high traditional PPM installations in 2022 and 2023.

3.26. This does not have a practical impact on the asset lifetimes assumed for traditional credit meters due to the longer asset life of those meters (20 years for both electricity and gas).

Proposals

3.27. We propose to amend formulae in the SMNCC model to correct for this overestimation, for both credit and PPM.

3.28. We propose to amend the formulae so that they calculate the number of traditional meter installations needed to replace expired traditional meters, of those installed since

³⁶ In August 2021, we decided to set the PPM SMNCC allowance based on the market average PPM rollout, split by fuel.

Ofgem (2021), Price Cap - Decision on PPM SMNCC allowance, paragraph 5.48.

<https://www.ofgem.gov.uk/publications/price-cap-decision-ppm-smncc-allowance>

³⁷ SMETS2 are the second generation of smart meters.

³⁸ Ofgem (2019), Smart Meter Rollout Open Letter - June 2019, pg 5.

<https://www.ofgem.gov.uk/publications/smart-meter-rollout-energy-suppliers-progress-and-future-plans-open-letter-june-2019>

2012, by first calculating the number of smart meters available to replace them. This would be calculated by netting off from the number of smart meters installed each year:

- the number of meters needed that year for new builds (where the metering points do not have HAN issues preventing them from receiving a smart meter);
- the number of expired traditional meters that year of those installed before 2012 (where the metering points do not have HAN issues preventing them from receiving a smart meter replacement).

Considerations

3.29. We consider that making these amendments will ensure the PPM SMNCC better reflects the true efficient costs of the smart meter rollout. In 2022 and 2023 there are likely to be enough smart meters rolled out to cover all or part of the traditional meters installed since 2012 that will expire. This should be taken into account when calculating the PPM SMNCC.

3.30. We also consider it appropriate to make the same change for credit, even though this will have no impact on the value of the credit SMNCC. The NRO applies to both credit and PPM, and the model should reflect this.

3.31. As can be seen in Table 3.2, the impact of the amendments on the PPM SMNCC is the same before and after the PPM cost offset is applied. This is because the amendments would have no impact on the electricity PPM SMNCC.³⁹ Additionally, the gas PPM SMNCC remains low enough to fully apply the PPM cost offset with and without the amendments.

3.32. The proposed change will have a downward impact on the PPM SMNCC values calculated for cap period seven. We would correct for this overfunding through advanced payments.

3.33. The amendments would reduce the gas PPM SMNCC in cap period eight by £4.04. By cap periods ten and eleven, they would reduce the PPM SMNCC by £8.44. This is due to the

³⁹ There is no impact on the electricity PPM SMNCC as the model assumes a 12 year traditional PPM asset life for electricity, so traditional electricity meters installed 2012 onwards are assumed to expire after 2023.

higher costs to suppliers of a traditional gas PPM compared to a smart PPM. The amendments would cause the model to assume a smart PPM (with a lower cost to serve) would have been installed in some cases where it would have previously assumed a traditional gas PPM (with a higher cost to serve) would have been installed. As more of the traditional meters installed since 2012 expire over time, the amendments have a greater impact in the future.

Table 3.2 - Impact of proposed model amendments on the PPM SMNCC

Impact on PPM SMNCC		Cap period five	Cap period six	Cap period seven	Cap period eight	Cap period nine	Cap period ten	Cap period eleven
		Oct 20 - March 21	April 21 - Sept 21	Oct 21 - March 22	April 22 - Sept 22	Oct 22 - March 23	April 23 - Sept 23	Oct 23 - Dec 23
No cost offset	Electricity	0	0	0	0	0	0	0
	Gas	0	0	-2.02	-4.04	-6.24	-8.44	-8.44
After cost offset	Electricity	0	0	0	0	0	0	0
	Gas	0	0	-2.02	-4.04	-6.24	-8.44	-8.44

Note: All values are £/customer, nominal. These values reflect only the impact of the proposed model amendments in this section and not of any of our other proposals. This impact would apply from 1 January 2021, when the prepayment level of the default tariff cap came into effect, due to advanced payments.

Appendices

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Appendix 1 – Proposed credit SMNCC values

1.1. We propose to make the changes to the credit SMNCC (as set out in this consultation) in the document 'Annex 5 – Methodology for determining the Smart Metering Net Cost Change' referred to in standard condition 28AD of the electricity and gas supply licences.

1.2. Within that document, we propose to make changes to sheet '2a Non pass-through costs', cells P7:S8.

1.3. The values we currently propose to insert are set out in the table below. These are the output values from the SMNCC model we have disclosed. At the decision stage, we intend to use the output values from the SMNCC model at that stage, including any revisions.

Table A1.1: Values to insert into Annex 5 of SLC28AD

Fuel	Cap period eight	Cap period nine	Cap period ten	Cap period eleven
Electricity	9.60	9.77	9.95	9.95
Gas	-0.81	-0.98	-1.15	-1.15

Notes: All values are £/customer, nominal.

Appendix 2 – Proposed PPM SMNCC values

1.1. We propose to make the changes to the PPM SMNCC (as set out in this consultation) in the document 'Annex 5 – Methodology for determining the Smart Metering Net Cost Change' referred to in standard condition 28AD of the electricity and gas supply licences.

1.2. Within that document, we propose to make changes to sheet '2a Non pass-through costs', cells P9:S10.

1.3. The values we currently propose to insert are set out in the table below. These are the output values from the SMNCC model we have disclosed. At the decision stage, we intend to use the output values from the SMNCC model at that stage, including any revisions.

1.4. The values in the table are before the PPM cost offset has been applied. The PPM cost offset is only applied to these values once they have been inserted into Annex 5.

Table A2.1: Values to insert into Annex 5 of SLC28AD

Fuel	Cap period eight	Cap period nine	Cap period ten	Cap period eleven
Electricity	-3.29	-3.96	-4.63	-4.63
Gas	-20.24	-23.85	-27.47	-27.47

Notes: All values are £/customer, nominal. These SMNCC values are before the PPM cost offset has been applied.

Appendix 3 – Credit SMNCC proposals for cap period eight and beyond

1.1. The table below provides an overview of the positions from the August 2021 credit SMNCC decision that we are proposing to maintain for cap period eight and beyond. It includes paragraph references to the location of the specific position in the August 2021 credit SMNCC decision. The August 2021 credit SMNCC decision provides more information on the topics mentioned below.

1.2. In some cases, the position in the August 2021 credit SMNCC decision reported or followed on from a previous decision. Not all positions in the table below therefore were new decisions in August 2021.

1.3. This table is intended as background information to help stakeholders. As discussed in Chapter 2, our overall position is that we are proposing to maintain the positions from the August 2021 credit SMNCC decision, except where specified. This table does not affect that overall position.

Table A3.1: Credit SMNCC proposals which maintain a position from the August 2021 credit SMNCC decision

Category	Summary of proposal	Location in August 2021 credit SMNCC decision
Rollout	Maintain principles for considering rollout profiles	Paragraph 2.11
	Use a market leader tolerance rollout profile	Paragraph 2.21
	Estimate rollout in the first half of 2021 by using actual data for the first quarter (Q1) 2021 and suppliers' updated projections for Q2 2021	Paragraph 2.22
	Estimate rollout in the second half of 2021 by using suppliers' projections for Q2 2021 for each of the remaining quarters of 2021	Paragraph 2.22
	Apply different rollout profiles for each fuel, estimated by looking at historical data for rollout across large energy suppliers	Paragraph 2.23

Category	Summary of proposal	Location in August 2021 credit SMNCC decision
	Update the following inputs to the SMNCC model: the profile for the proportion of SMETS1 meters enrolled with the Data Communications Company (DCC), the date at which SMETS1 meters are treated as enrolled, the proportion of SMETS1 meters expiring early, the scaling factors for the proportion of SMETS1 meters losing smart functionality, and the proportion of installations which are SMETS1 or SMETS2 for 2020 and 2021	Appendix 10, paragraph 1.29
Costs	Estimate sunk installation costs in 2020 by using an average of the values calculated using two approaches (referred to methods one and two in the August 2021 credit SMNCC decision)	Paragraph 3.15
	Include sunk installation costs for 2021	Paragraph 3.38
	Estimate sunk installation costs in 2021 using a bottom-up approach	Paragraph 3.39
	Do not include sunk installation costs for the years beyond 2021	Paragraph 3.55
	Estimate the cost per installation achieved for 2020 using an average of the costs per installation associated with the two methods that we use for calculating sunk installation costs in 2020	Paragraph 3.65
	Use the same cost per installation as we use in our bottom-up approach to project sunk installation costs for 2021	Paragraph 3.75
	Do not use the cost per installation for 2021 as the starting point for projecting installation costs in future years (ie 2022 and 2023)	Paragraph 3.76
	Include BEIS's assumed improvement in operational fulfilment	Appendix 9, paragraph 1.7
	Apply the improvement in operational fulfilment to a base level of productivity which is the average productivity between 2017 and 2019	Appendix 9, paragraph 1.8

Category	Summary of proposal	Location in August 2021 credit SMNCC decision
	Maintain the current (ie August 2020 decision) approach to calculating marketing costs	Appendix 9, paragraph 1.27
	Do not increase the unit costs of smart meter assets and installations due to the change in rollout profile (since our August 2020 decision)	Appendix 9, paragraph 1.45
	Update the SMNCC model using SMAIR data for the costs of smart meters, communications hubs and IHDs (in line with our August 2020 credit SMNCC decision)	Appendix 10, paragraph 1.5
	Do not use SMAIR data to update smart meter installation costs	Appendix 10, paragraph 1.6
	Make consequential edits as a result of using the SMAIR data: remove optimism bias from the 2020 values, start any assumed cost erosion from after the last actual data, and update the baseline adjustment for payment methods	Appendix 10, paragraph 1.8
	Turn off the bottleneck uplifts in the SMNCC model	Appendix 10, paragraph 1.30
	Update the meter rental uplift values	Appendix 10, paragraph 1.31
	Maintain approach from April 2021 consultation for: the proportion of in-home displays (IHDs) replaced at the end of their life, changes over time for the number of installers in training, the expiry date for traditional meters, and the smart metering costs included in the operating cost allowance (all points except the expiry date for traditional meters relating to our August 2020 credit SMNCC decision)	Appendix 10, paragraphs 1.52 and 1.53
Benefits	Update the SMNCC model using SMAIR data for the number and cost of avoided site visits (in line with our August 2020 credit SMNCC decision)	Appendix 10, paragraph 1.5
	Update four additional smart metering benefits using SMAIR data: change of supplier, inbound enquiries, debt, and remote change of tariff	Appendix 10, paragraph 1.7

Category	Summary of proposal	Location in August 2021 credit SMNCC decision
Calculating SMNCC	Include advanced payments (in line with our August 2020 credit SMNCC decision)	Paragraph 4.11
	Assess uncertainty qualitatively	Appendix 11, paragraph 1.7
	Do not make a numerical uncertainty adjustment	Appendix 11, paragraph 1.8
Other	Do not gather other data to update the SMNCC model	Appendix 10, paragraph 1.23

Appendix 4 – PPM SMNCC proposals for cap period eight and beyond

1.1. The table below provides an overview of the positions from the August 2021 PPM SMNCC decision that we are proposing to maintain for cap period eight and beyond. It includes paragraph references to the location of the specific position in the August 2021 PPM SMNCC decision. The August 2021 PPM SMNCC decision provides more information on the topics mentioned below.

1.1. In some cases, the position in the August 2021 PPM SMNCC decision reported or followed on from a previous decision. Not all positions in the table below therefore were new decisions in August 2021.

1.2. This table is intended as background information to help stakeholders. As discussed in Chapter 2, our overall position is that we are proposing to maintain the positions from the August 2021 PPM SMNCC decision, except where specified. This table does not affect that overall position.

Table A4.1: PPM SMNCC proposals which maintain a position from the August 2021 PPM SMNCC decision

Category	Summary of proposal	Location in August 2021 PPM SMNCC decision
Rollout	Update the following inputs to the SMNCC model: the profile for the proportion of SMETS1 meters enrolled with the DCC, the date at which SMETS1 meters are treated as enrolled, the proportion of SMETS1 meters expiring early, the scaling factors for the proportion of SMETS1 meters losing smart functionality, and the proportion of installations which are SMETS1 or SMETS2 for 2020 and 2021	Paragraph 2.171
	Set a PPM-specific rollout profile for the PPM SMNCC	Paragraph 4.8
	Continue using the SMNCC model to set the PPM SMNCC	Paragraph 4.16

Category	Summary of proposal	Location in August 2021 PPM SMNCC decision
	Use a single rollout profile	Paragraph 4.28
	Remove outliers from our sample of suppliers used to calculate the weighted average rollout profile, to make it broadly reflective of the average cost of rolling out smart meters.	Paragraph 4.29
	Apply different rollout profiles for each fuel, estimated by looking at historical data for rollout across large energy suppliers	Paragraph 4.30
	Use supplier rollout data for the period 2017-2020. Use a modelled approach to set the profile for the period 2011-2016.	Paragraph 5.14
	Use actual Q1 2021 smart PPM rollout numbers to represent this quarter in the PPM-specific rollout profile	Paragraph 5.28
	Use suppliers' updated rollout plans provided to BEIS for Q2 2021 to model rollout progress by the end of H1 2021	Paragraph 5.29
	Set the PPM SMNCC allowance based on the market average PPM rollout, split by fuel	Paragraph 5.48
	Set the PPM SMNCC based on the minimum installation obligation (tolerance)	Paragraph 5.70
Costs	Use the same cost per smart PPM installation and smart meter rental uplifts (MRUs) as the credit SMNCC.	Paragraph 2.10
	Use the PPM-specific SMAIR values for traditional meter installation costs.	Paragraph 2.11
	Use SMAIR data for smart meter asset costs, using the same smart meter asset unit cost as in the credit SMNCC	Paragraph 2.19

Category	Summary of proposal	Location in August 2021 PPM SMNCC decision
	Use SMAIR data to include the cost of non-interoperable SMETS1 communications hubs, using the same communications hub unit cost as for the credit SMNCC.	Paragraph 2.20
	Use SMAIR data for estimating IHD costs, adopting the same calculation approach as credit	Paragraph 2.21, 2.22
	Use PPM-specific traditional meter asset costs	Paragraph 2.23
	Use the same calculation approach of premature replacement charges (PRCs) for PPM as for credit.	Paragraph 2.35
	To calculate PRCs for PPM, use PPM-specific asset costs, installation costs, MRUs and asset lifetimes and rollout profile	Paragraph 2.36
	For both traditional and SMETS1 meters, include the asset and installation costs that a supplier avoids in future years after replacing a meter early.	Paragraph 2.42
	Use the same supplier IT costs as for credit meters (on a per meter basis)	Paragraph 2.48
	Use PPM-specific values for the net operating and maintenance (O&M) costs of smart meter rollout, based on RFI data.	Paragraph 2.53
	Not apply an “optimism bias” adjustment to the changes in O&M costs resulting from switching to a smart meter from a gas traditional meter.	Paragraph 2.54
	Estimate sunk installation costs in 2020 by using an average of the values calculated using two approaches (referred to methods one and two in the August 2021 PPM SMNCC decision)	Paragraph 2.92
	Include sunk installation costs for 2021	Paragraph 2.94

Category	Summary of proposal	Location in August 2021 PPM SMNCC decision
	Estimate sunk installation costs in 2021 using a bottom-up approach	Paragraph 2.95
	Do not include sunk installation costs for the years beyond 2021	Paragraph 2.96
	Estimate the cost per installation achieved for 2020 using an average of the costs per installation associated with the two methods that we use for calculating sunk installation costs in 2020	Paragraph 2.98
	Use the same cost per installation as we use in our bottom-up approach to project sunk installation costs for 2021	Paragraph 2.100
	Do not use the cost per installation for 2021 as the starting point for projecting installation costs in future years (ie 2022 and 2023)	Paragraph 2.101
	Include BEIS’s assumed improvement in operational fulfilment	Paragraph 2.136
	Apply the improvement in operational fulfilment to a base level of productivity which is the average productivity between 2017 and 2019	Paragraph 2.137
	Maintain the current (ie August 2020 credit decision) approach to calculating marketing costs	Paragraph 2.144
	Do not increase the unit costs of smart meter assets and installations due to the change in rollout profile	Paragraph 2.150
	Use the same organisational costs as for credit meters (on a per meter basis)	Paragraph 2.155
	Update the SMNCC model using SMAIR data for the costs of smart meters, communications hubs and IHDs	Paragraph 2.161

Category	Summary of proposal	Location in August 2021 PPM SMNCC decision
	Do not use SMAIR data to update smart meter installation costs	Paragraph 2.162
	Make consequential edits as a result of using the SMAIR data: remove optimism bias from the 2020 values, start any assumed cost erosion from after the last actual data, and update the baseline adjustment for payment methods	Paragraph 2.163
	Turn off the bottleneck uplifts in the SMNCC model	Paragraph 2.173
	Update the meter rental uplift values	Paragraph 2.174
	Maintain the assumed reduction in training costs when projecting installation costs at the time of our April 2021 consultation	Paragraph 2.178
	Set the traditional PPM asset life to 12 years for electricity and 10 years for gas	Paragraph 3.11
	Maintain the 10-year amortisation period for traditional PPMs	Paragraph 3.12
	Maintain the 10-year assumption for the age after which PRCs no longer apply	Paragraph 3.13
Benefits	Update the SMNCC model using SMAIR data for the number and cost of avoided site visits	Paragraph 2.161
	Account for PPM operational benefits using the PPM cost-to-serve (CTS) benefit calculation in the SMNCC model.	Paragraph 3.43
	Use February 2021 RFI data to calculate the PPM CTS benefit, excluding three suppliers from our RFI sample	Paragraph 3.44
	Retain methodology of calculating the operational cost savings of replacing a traditional PPM with a smart PPM	Paragraph 3.45

Category	Summary of proposal	Location in August 2021 PPM SMNCC decision
	across individual suppliers and then calculating a weighted average of those savings	
	Not using 2020 data we collected as part of the February 2021 RFI since it would be impacted by Covid-19	Paragraph 3.46
	Apply a 12% reduction to the final PPM CTS benefit to address concerns of inconsistency between the benefit and the 2017 operating cost benchmark	Paragraph 3.47
Calculating SMNCC	Correct for the differing efficiency benchmark definitions used for the operating cost allowance and the SMNCC, by subtracting the lower quartile 2017 baseline costs from the relevant year's average efficient costs.	Paragraph 2.66
	Excluding one supplier from the weighted average PPM rollout profile used for the calculation, given it was not included in our operating cost benchmarking analysis and had high smart metering costs relating to PPM from our calculation of the 2017 benchmark.	Paragraph 2.76
	Removing the impact of weighted average smart meter costs in the operating cost allowance by applying a downward adjustment to the PPM SMNCC	Paragraph 2.77
	Use the same methodology as the credit SMNCC to convert annual SMNCC allowances to six-month cap periods	Paragraph 2.126
	Remove the nil consumption scalar for the PPM SMNCC.	Paragraph 3.76
	Use a PPM cost offset that works on a cap period basis rather than cumulatively.	Paragraph 3.80
	Implement the PPM cost offset in the Annex 5 model (in line with our August 2020 PPM decision)	Paragraph 3.91

Category	Summary of proposal	Location in August 2021 PPM SMNCC decision
	Calculate advanced payments using the net SMNCC for PPM (after we have applied the PPM cost offset), rather than the SMNCC determined by the model	Paragraph 6.7
	Assess uncertainty qualitatively	Appendix 3, paragraph 1.3
	Do not make a numerical uncertainty adjustment	Appendix 3, paragraph 1.4
Other	Do not gather other data to update the SMNCC model	Paragraph 2.167

Appendix 5 – Consultation process feedback

1.3. This appendix covers feedback from our April 2021 consultations on the consultation process for this autumn 2021 consultation.

1.4. Several suppliers commented on the process they considered we should follow for the autumn 2021 consultation for cap period eight.

1.5. Two suppliers requested a disclosure process alongside our autumn 2021 consultation. Our addendum stated that we did not intend to conduct a disclosure process.⁴⁰

1.6. We have considered this and we are running a full disclosure process alongside this consultation. This will provide access to the updated SMNCC model and associated subsidiary models alongside this consultation. This will allow stakeholders to inspect the SMNCC model and their advisers to inspect certain other pieces of analysis, in each case subject to confidentiality restrictions.

1.7. Another supplier stated that, based on our addendum proposals, it was premature to assume by default that we would only require a short consultation in Autumn 2021 to finalise our approach to cap period eight. They commented that we should be as comprehensive as possible in the Autumn 2021 consultation when consulting on arrangements for cap period eight.

1.8. In our August 2021 decision, we said that most of the decisions we discussed for cap period seven would remain appropriate for cap period eight (and beyond). We maintain this view and propose to maintain the majority of the positions from the August 2021 decision for this consultation. It is as a result of this that this Autumn 2021 consultation is a shorter one than usual.

⁴⁰ Ofgem (2021), Price Cap – addendum to consultations on reviewing the credit and PPM SMNCC allowances.
<https://www.ofgem.gov.uk/publications/price-cap-addendum-consultations-reviewing-credit-and-ppm-smncc-allowances>

Appendix 6 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk.

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest i.e. a consultation.

4. With whom we will be sharing your personal data

We may share consultation responses with BEIS.

Please note that responses not marked as confidential will be published on our website. Please be mindful of this when including personal details.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".