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By email to: Retailpriceregulation@ofgem.gov.uk

Dear Marcus

Price cap - November 2022 consultation on approach to reviewing the SMNCC allowances¹

Centrica welcomes the opportunity to respond to the above consultation. In summary, Ofgem proposes:

- to indefinitely pause annual reviews of the SMNCC methodology but keep the values reflective of current data by making annual updates to a pre-defined list of inputs used in the modelling of smart metering costs;
- to extend the SMNCC model to cover potential cap periods through to 2030 but not consult on model extension. Ofgem contends that disclosure of the extended model would serve no purpose other than to allow stakeholders to check for errors, which is a role Ofgem itself should fulfil through its own quality assurance checks²;
- to publish 12 months' worth of final non-pass-through SMNCC values in August each year but to not publish any provisional values for cap periods beyond this 12-month period; and
- to consider and consult on a longer-term approach for SMNCC as part of a future review of the operating cost allowance.

In general, we accept the pragmatic case that Ofgem's current modelling approach is now mature, that the materiality of SMNCC allowances has declined and that detailed annual reviews may be subject to diminishing returns. In these circumstances, we agree that pausing annual reviews will reduce burdens on stakeholders, freeing up resources to be prioritised on more consequential allowances, **subject to the following important qualifications:**

¹ [Price cap - November 2022 consultation on approach to reviewing the SMNCC allowances | Ofgem](#)

² Ofgem states at 5.5 "As a result, disclosing the extended model would only serve the purpose of allowing participants to engage in error checking. This is not the role of stakeholders. The extended model will be subject to internal Ofgem quality assurance processes."

- **Ofgem should publish provisional values for a further 12 months beyond the 12 months' worth of final values it proposes to publish in August each year.** This reflects the fact that our planning horizons extend beyond 12 months, but suppliers will have no access to Ofgem's SMNCC model to generate their own forecasts. Given Ofgem's intention to extend the model to 2030 there is no additional burden on Ofgem to publish a further 12 months' worth of provisional values.
- **Ofgem's decision to suspend *automatic* annual reviews must itself be kept under review to allow for material change of circumstances.** We endorse and underline the importance of Ofgem's statement at 4.2 of the consultation document: *"Stakeholders will of course still be able to contact Ofgem about any concerns they have regarding SMNCC. We would retain the right to undertake a full review informed by a consultation should we feel this necessary for any reason."*
- **Any substantive revisions to the SMNCC model or revised methodology for determining smart cost allowances must be subject to full and transparent consultation.** We agree that it should not, as a matter of course, fall to suppliers to engage independent experts to check Ofgem's model for straightforward errors that could and should have been picked up at an earlier stage by robust quality assurance. However, we note that it is only as a result of previous disclosure and external scrutiny that material errors have come to light, contributing to the 'maturity' of the model on which Ofgem now relies to justify less intensive review. It therefore remains important that any new modelling approach (including but not necessarily limited to the context of future review of operational costs) should be subject to full consultation, scrutiny, and disclosure.

Yours sincerely

Don Wilson
Market Design and Policy