

To all stakeholders

Email: [priceprotectionpolicy@ofgem.gov.uk](mailto:priceprotectionpolicy@ofgem.gov.uk)

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## **Annual update of non pass-through (NPT) Smart Meter Net Cost Change (SMNCC) allowances**

The NPT SMNCC allowances reflect the change in costs to an efficient supplier of rolling out smart meters to their customers compared to the costs of doing so already incorporated in the operating cost allowance. They are calculated using the NPT SMNCC model and are separately set for the credit (direct debit and standard credit) and pre-payment meter (PPM) cap levels.<sup>1</sup>

Historically the methodology used to calculate these allowances has been subject to an annual review. Following a consultation in November 2022 and a decision in February 2023, these annual methodology reviews have been indefinitely paused.<sup>2,3</sup> Going forward the NPT SMNCC allowances are now simply updated annually to reflect the latest data relevant to a defined list of inputs into the NPT SMNCC model.

This letter gives notice of the updated values of the NPT SMNCC allowances for the period October 2023 to September 2024. The new values can be found in the Annex of this letter and have been copied into the '2a Non pass-through costs' sheet of the Annex 5 model published alongside the October 2023 to December 2023 price cap announcement.<sup>4</sup>

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<sup>1</sup> Note direct debit is referred to as 'other payment method' in the gas and electricity Standard Licence Condition (SLC ) 28AD.

<sup>2</sup> Ofgem (2022), "Price cap - November 2022 consultation on approach to reviewing the SMNCC allowances", <https://www.ofgem.gov.uk/publications/price-cap-november-2022-consultation-approach-reviewing-smncc-allowances>

<sup>3</sup> Ofgem (2023), "Price Cap – February 2023 decision on approach to reviewing the SMNCC allowances", <https://www.ofgem.gov.uk/publications/price-cap-february-2023-decision-approach-reviewing-smncc-allowances>

<sup>4</sup> Ofgem (2023), "Energy price cap (default tariff): 1 October to 31 December 2023", Annex 5 <https://www.ofgem.gov.uk/publications/energy-price-cap-default-tariff-1-october-31-december-2023>

## Data updates

In line with the February 2023 decision, we have updated the NPT SMNCC model inputs listed in table 1. These inputs now reflect the data from the 2022 Annual Supplier Returns (ASR) data provided by suppliers, the rollout target and tolerance values for 2024 and 2025 of the Smart Meter Targets Framework published in July 2023<sup>5</sup>, and the GDP deflator estimates and forecasts from the Office for National Statistics (ONS) and Office for Budget Responsibility (OBR) respectively.<sup>6</sup>

**Table 1 - Annual data/input updates to non-pass-through SMNCC model**

Area	Components	Sources of Data
Costs	<ul style="list-style-type: none"><li>installation and asset costs of smart meters</li><li>the asset costs of communication hubs and In-Home Displays (IHDs)</li></ul>	Annual Supplier Returns
Benefits	<ul style="list-style-type: none"><li>the number and cost of avoided site visits</li><li>change of supplier benefits (credit only)</li><li>benefits of reduced inbound enquires (credit only)</li><li>improved debt management (credit only)</li><li>benefits of a remote change of tariff (credit only)</li></ul>	Annual Supplier Returns
Rollout	<ul style="list-style-type: none"><li>data on actual customer numbers by metering type to update smart meter roll out percentages for upcoming years</li><li>new or changed rollout target or tolerance values</li></ul>	Annual Supplier Returns; Smart meter policy framework publications
Other inputs	<ul style="list-style-type: none"><li>GDP deflator</li></ul>	ONS and OBR

## Extension of the NPT SMNCC model to 2023

In line with the February 2023 decision, we have also extended the NPT SMNCC models functionality out to 2030. This follows the removal of the cap end date from licence conditions and the extension of the price cap 'annex' models to 2030.<sup>7</sup>

In that decision we stated that, in extending the model, we intended to maintain the current methodology as closely as possible. In almost all cases doing so was mechanical in nature, with values or assumptions maintained but extended into future years. In the case of the assumed total number of metering points we have extended these forward using the

<sup>5</sup> DESNZ (2023), "Smart Meter Targets Framework: minimum installation requirements for Year 3 (2024) and Year 4 (2025)", table 3 page 72, <https://www.gov.uk/government/consultations/smart-meter-targets-framework-minimum-installation-requirements-for-year-3-2024-and-year-4-2025>

<sup>6</sup> Values up to 2022 from ONS 2022Q4 Quarterly National Accounts. Values for 2023 to 2027 from OBR March 2023 Economic and fiscal outlook publication.

<sup>7</sup> Ofgem (2023), "Price Cap – Decision on removal of the cap end date from licence conditions", <https://www.ofgem.gov.uk/publications/price-cap-decision-removal-cap-end-date-licence-conditions>

assumption used in the 2023 Smart Meter Target Framework impact assessment. This assumes an extra 400,000 meters per year, with 94% occurring in the domestic sector.<sup>8</sup>

As committed to in the February 2023 decision, we have also adjusted the period over which the 'advanced payments' adjustment is applied, moving from a fixed date (end of 2023) to a rolling 12-month window.<sup>9</sup>

### **Final values for cap period 11**

As per our February 2023 decision, we are today publishing 12-months of final NPT SMNCC values (01 October 2023 – 30 September 2024) and no provisional values for periods beyond this.

Combining these values with the pass-through values and PPM cost offset results in the overall SMNCC allowances. For a dual fuel customer at benchmark consumption these allowances will be £17.17 for credit and -£5.05 for PPM in October to December 2023. This is a decrease of £4.17 for credit and £1.39 for PPM compared to the allowances in the current cap period.

In the case of PPM this is primarily driven by the change in industry pass-through charges. For credit this largely reflects the impact of a reduction in the assumed rollout level in 2023 on the NPT values. This follows from the incorporation of data on the actual rollout in 2022 and the new Smart Meter Policy Framework tolerances values.

### **Review of the operating cost allowance**

As set out in our Programme of Work, and supported by a recent call for input, we are intent on reviewing the operating cost allowances including SMNCC.<sup>10,11</sup> Any change in approach to SMNCC decided through that review may result in changes to the values presented in the annex of this letter.

Yours faithfully,

**Rishi Vashani**

Head of price cap policy

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<sup>8</sup> DESNZ (2023), "Smart Meter Targets Framework", Annex B: Analytical evidence, page 9  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1168099/smart-meters-consultation-government-response-mid-point-review-analytical-annex.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1168099/smart-meters-consultation-government-response-mid-point-review-analytical-annex.pdf)

<sup>9</sup> Advanced payment adjustments are made to reflect when suppliers have received payment in advance for smart metering cost they have not yet incurred, or lagged payments for costs they have already occurred.

<sup>10</sup> Ofgem (2023), "Price Cap – Programme of Work: Update"  
<https://www.ofgem.gov.uk/publications/price-cap-programme-work-update>

<sup>11</sup> Ofgem (2023), "Price cap - Call for Input on the Operating Cost Allowances Review"  
<https://www.ofgem.gov.uk/publications/price-cap-call-input-operating-cost-allowances-review>

## Annex

We have decided to use updated values for the credit and PPM NPT SMNCC allowances in document 'Annex 5 – Methodology for determining the Smart Meter Net Cost Change' referred to in standard condition 28AD of the electricity and gas supply licences.

Within that document we have inserted the latest values into sheet '2a Non pass-through costs', cells S8:V11

The values we have decided to insert are set out in the tables below.

**Table 1: Standard Credit and Other Payment Method values to insert into Annex 5 of SLC28AD**

Fuel	Oct 23 – Dec 23	Jan 24 – Mar 24	Apr 24 – Jun 24	Jul 24 – Sep 24
Electricity	9.48	9.48	9.30	9.30
Gas	-2.69	-2.69	-3.81	-3.81

**Notes:** All values are £/customer, nominal. Allowances presented at benchmark consumption.

**Table 2: PPM values to insert into Annex 5 of SLC28AD**

Fuel	Oct 23 – Dec 23	Jan 24 – Mar 24	Apr 24 – Jun 24	Jul 24 – Sep 24
Electricity	-6.02	-6.02	-7.89	-7.89
Gas	-26.79	-26.79	-31.42	-31.42

**Notes:** All values are £/customer, nominal. Values do not include PPM additional cost offset adjustment. Allowances presented at benchmark consumption.