

To all stakeholders

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

The NPT SMNCC allowances reflect the difference in costs to a notional efficient supplier driven by the rollout of smart meters in the current year, relative to the year on which the operating costs allowance was set. The allowances 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.¹

The NPT SMNCC allowances are updated annually, to reflect the latest data relevant to a defined list of inputs into the NPT SMNCC model, and set the allowances each October for the forthcoming year.² We are currently undertaking a review of operating cost allowances, which will be implemented in 2025 and will set a new baseline operating cost allowance. This will necessitate a change in approach to setting the NPT SMNCC allowance going forward and we set out options for setting the NPT SMNCC allowance in our May 2024 consultation. In the policy consultation, we also discussed options for setting the NPT SMNCC allowance in the interim period, between October 2024 (the start of the next NPT SMNCC annual allowance period) and implementation of the operating cost allowances review (as we anticipate implementing the operating cost review before October 2025). The options discussed were to (a) issue a full update using the latest Annual Supplier Returns (ASR) data, or (b) to use the existing inputs in the SMNCC model to set the forward profile of the allowance for this interim period.³ Following consideration of the policy consultation responses and review of the data inputs we have decided to proceed with (a) update the SMNCC model with the latest ASR data.

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

² Ofgem (2023), February 2023 decision on approach to reviewing the SMNCC allowances, paragraph 3.22. <https://www.ofgem.gov.uk/decision/price-cap-february-2023-decision-approach-reviewing-smncc-allowances>

³ Ofgem (2024), Energy price cap operating cost allowances review, paragraphs 5.56-5.58. <https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-allowances-review>

This letter gives notice of the updated values of the NPT SMNCC allowances for the period October 2024 to September 2025. The new allowance 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 2024 to December 2024 price cap announcement.⁴

Data updates

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

Table 1 - Annual data/input updates to NPT SMNCC model

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

Update of the SMNCC model for cap periods 13 -14 (Oct 2024 - Sep 2025)

As described in our August 2024 working paper (published today), we have decided to update the SMNCC model with the latest available data updates / inputs.⁷ An update was also made to 2022 rollout input data to ensure the allowance is based on the most accurate

⁴ Ofgem (2024), Annex 5 – Smart metering net cost change methodology.

<https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/energy-price-cap-default-tariff-policy/energy-price-cap-default-tariff-levels>

⁵ 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>

⁶ Values up to 2023 from ONS 2024 Q2 Quarterly National Accounts. Values for 2024 to 2027 from OBR July 2024 Economic and fiscal outlook publication.

⁷ Ofgem (2024), Energy Price Cap operating costs review: smart metering costs working paper.

<https://www.ofgem.gov.uk/publications/energy-price-cap-operating-costs-review-smart-metering-costs-working-paper>

and up to date estimates, including correcting for discrepancies in the 2022 rollout input data.

The August 2024 SMNCC model update revises the 2022 rollout data and, as detailed in Table 1, updates model inputs using 2023 ASR data. These revised and updated values feed into the advanced payments calculation which provides for the difference between the expected rollout profile and the observed rollout profile.⁸

Final SMNCC values

We are today publishing 12-months of final NPT SMNCC values for cap period 13 (01 October 2024 – 31 March 2025).

Combining these values with the pass-through values and PPM cost offset results in the overall SMNCC allowance. For a dual fuel customer at benchmark consumption these allowances will be £22.36 for credit customers and -£23.17 for PPM customers between October and March 2024. This is an increase of £5.28 for credit and a decrease of £14.80 for PPM compared to the allowances in the current cap period. These values do not take into account the impact of levelisation.

The change in allowance reflects the impact of an increase in the assumed rollout level in 2024 on the NPT values. In addition, for credit customers, the change in allowance reflects the impact of a change in the market leader rollout supplier used in the NPT SMNCC model.

Review of the operating cost allowances

As set out in our August 2024 working paper (published today) we are reviewing the NPT SMNCC allowance methodology as part of our operating cost allowances review. 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,

Dr Cathy Cui

Head of price cap policy

⁸ The advanced payments adjustment reflects that we set the SMNCC allowance based on estimates of future rollout and costs. We use the advanced payment adjustment once actual rollout data becomes available, so as to align the cumulative allowances and costs for the rollout.

Annex

We have updated the 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 W8:W11. These values 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 24 – Dec 24	Jan 25 – Mar 25	Apr 25 – Jun 25	Jul 25 – Sep 25
Electricity	12.91	12.91	13.04	13.04
Gas	-1.32	-1.32	-1.85	-1.85

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

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

Fuel	Oct 24 – Dec 24	Jan 25 – Mar 25	Apr 25 – Jun 25	Jul 25 – Sep 25
Electricity	-10.84	-10.84	-11.84	-11.84
Gas	-45.12	-45.12	-48.73	-48.73

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