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 change in costs to an efficient supplier of rolling out smart meters to their customers, compared to the costs already incorporated in the operating cost allowance. They are calculated using the NPT SMNCC model. We set these allowances separately for the credit (direct debit and standard credit) and prepayment meter (PPM) cap levels.

We update the NPT SMNCC allowances 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 as set out in our February 2023 decision on the approach to reviewing the SMNCC allowances.

Historically the methodology used to calculate these allowances has been subject to an annual review. Following a consultation in November 2022 and our decision in February 2023, these annual methodology reviews were indefinitely paused. There have, however,

been updates to the methodology for calculating these allowances resulting from the May 2025 operating costs decision. These updates were confirmed in Appendix 3 of the May 2025 decision document, which are further highlighted in this letter.

This letter gives notice of the updated values of the NPT SMNCC allowances for the period October 2025 to March 2026. The new values can be found in the 'Final values for cap periods 15a and 15b section' of this letter.

## Data updates

We have updated the NPT SMNCC model with the latest available inputs. We have also made some essential changes to the methodology of some areas of the SMNCC calculations, notably for post-2025 rollout and advanced payments. Details of the updates are below:

### 2025 ASR

We have updated the SMNCC model with data from the 2025 Annual Supplier Returns (ASR). These inputs reflect data for 2024 provided by suppliers. We have also updated the GDP deflator estimates and forecasts from the Office for National Statistics (ONS) and Office for Budget Responsibility (OBR) respectively.

**Table 1: Annual data/input updates to the NPT SMNCC model**

| Area | Components | Sources of data |
|---|---|---|
| Costs | • Asset costs of smart meters, communication hubs and In-Home Displays (IHDs) | Annual Supplier Returns (ASR) |
| Benefits | • The number and cost of avoided site visits<br>• Change of supplier benefits (credit only)<br>• Benefits of reduced inbound enquires (credit only) | Annual Supplier Returns (ASR) |

| Area | Components | Sources of data |
|---|---|---|
| | • Improved debt management (credit only)<br>• Benefits of a remote change of tariff (credit only) | |
| Rollout | • Data on actual customer numbers by metering type to update smart meter roll out percentages for upcoming years<br>• New temporary rollout framework for 2025 onwards | Annual Supplier Returns (ASR)<br>Previous SMNCC publications |
| Other inputs | • GDP deflator<br>• Advanced payments<br>• Customer numbers | ONS and OBR<br>Previous SMNCC publications<br>Ofgem analysis of the Tariff and Customer account Request for Information |

In line with the table in our February 2023 decision and our analysis for previous annual updates, we have not updated installation costs. Previous annual update letters erroneously mentioned installation costs in the list of data items we update. We have updated Table 1 accordingly to reflect the scope of our update.

## Post-2025 rollout updates

The current framework for smart meter rollout does not have forecasted data for years beyond 2025. The Department for Energy Security and Net Zero (DESNZ) are currently consulting on a new smart metering policy framework for years beyond 2025. However, while this consultation is ongoing, we are setting a temporary rollout profile for use in calculating allowance values during this period. We explained this in our May 2025

operating costs decision (Appendix 3, paragraph 6.6 of decision document). As set out in our May 2025 decision (Appendix 3, paragraph 6.9), we intend to review our approach to rollout following DESNZ's decision and will consult with stakeholders as part of our review. Advanced payments will account for any differences to actual rollout affecting allowance values.

2024 is the first year after the new operating cost baseline (2023). As set out in the May 2025 decision document, we use a weighted average profile to calculate rollout profiles for credit customers up to and including the baseline year (Appendix 3, paragraph 5.3). We then use a market leader profile for subsequent years. The market leader is defined as the supplier with the highest modelled SMNCC to the end of the framework. For this specific update, the market leader's rollout in 2024 is lower than the weighted average in 2023. To manage this transition, we have rolled forward the 2023 value for 2024 to avoid modelling a decrease in rollout.

For 2025, we have overall maintained the existing target rollout of 74.5%, in line with the current framework. However, we have set different rollout values for credit and PPM. These maintain the percentage point difference in rollout between credit and PPM from 2024, while ensuring that the weighted average, based on the latest customer numbers, delivers 74.5% rollout. This is coherent with the rollout framework, which applies across a supplier's domestic portfolio, rather than having specific targets for credit and PPM. Given the current differences in rollout levels for credit and PPM, we consider that it is reasonable at this stage in the rollout framework to recognise this in the 2025 rollout figures. This avoids modelling a materially higher implied rollout for one segment than the other in 2025. We consider that this supports the accuracy of the SMNCC allowances.

For years beyond 2025, we have applied an annual increment. To do this we have calculated the percentage point increase for both credit and PPM rollouts between 2023 and 2024 (the last years for which we have actual rollout data) and used a weighted average of these based on customer numbers. We consider that recent historical performance is a reasonable approach to setting this temporary rollout profile. For credit, we have calculated the input for this increment using the market leader profile for both 2023 and 2024. We use a single increment value across credit and PPM because it is

uncertain how rollout in future years would be split between these segments, as the rollout progresses.

Differences between this temporary rollout profile and actual rollout would be addressed in subsequent updates through the advanced payments mechanism, which would ensure that allowances ultimately reflect the rollout achieved.

### Advanced payments updates

As set out in the May 2025 operating costs decision, the methodology for calculating advanced payments has changed to account for the move to a 2023 operating cost baseline. As a result, we have used different inputs for the SMNCC allowance received in previous cap periods.

For cap periods up to and including March 2025, we calculated the difference between the SMNCC allowance in the relevant cap periods and the SMNCC allowance in the middle of the 2023 baseline year. This will represent an equivalent allowance for what suppliers received before the new model was introduced, while avoiding re-baselining issues. For April-September 2025 we took a simple average between the calculation approach set out above and the new SMNCC value applied through the operating cost decision. In all periods before September 2025, we have used SMNCC values before previous advanced payments, as calculated in our last SMNCC update (August 2024). We exclude previous advanced payments as these relate to periods before the new 2023 baseline. We use SMNCC values from a single model version for coherence. For the cap periods from October 2025, in future updates we will use the new SMNCC values (as published and including previous advanced payments) as an input to calculate advanced payments.

When updating the advanced payments calculation, we have also ensured that the model uses customer numbers specific to each cap period.

## Final values for cap periods 15a and 15b

We are today publishing six months of final SMNCC values for cap period 15 (1 October 2025 to 31 March 2026). For a dual fuel customer at benchmark consumption these allowances will be -£5.72 for credit customers and -£9.61 for PPM customers between

October 2025 and March 2026. This is a decrease of £1.94 for credit and an increase of £8.72 for PPM compared to the allowances in the current cap period (cap period 14b).

Rollout is a key driver of the change in the SMNCC allowance. The new figures reflect actual rollout for 2024, which was lower than the previous model input for that year. This results in a larger modelled year-on-year incremental increase in 2025. The new figures also reflect the implementation of the temporary rollout framework (detailed above). This is offset by changes to advanced payments and incremental changes to specific cost components of the SMNCC allowance. The offset is larger and the incremental change in rollout is smaller for credit values hence why these have decreased overall. It is worth noting that in setting the allowance based on a rollout profile commensurate with achieving the 2025 tolerances, any under-performance against those tolerances would likely result in negative future advanced payments, which in turn would reduce final SMNCC allowances.

Please note these numbers include advanced payments and are the same as the numbers inputted into document 'Annex 5 – Methodology for determining the Smart Meter Net Cost Change' ('2a Non pass-through costs' cells AA8:AA11, credit electricity, credit gas, PPM electricity and PPM gas respectively) for cap period 15a (October to December 2025). The specific inputs for this are below:

**Table 2: NPT SMNCC values inserted into annex 5 (cap period 15a and 15b, £/customer nominal, allowances presented at benchmark consumption)**

| Payment type | Fuel type | Value |
|---|---|---|
| Standard Credit and Other Payment Methods (Credit) | Electricity | -2.07 |
| Standard Credit and Other Payment Methods (Credit) | Gas | -3.66 |
| PPM | Electricity | -3.16 |

| Payment type | Fuel type | Value |
|---|---|---|
| PPM | Gas | -6.45 |

Yours faithfully,

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