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## **RESPONSE PAPER #4: REVIEWING SMART METERING COSTS IN THE DEFAULT TARIFF CAP – DISCLOSURE ARRANGEMENTS**

### **Introduction**

1. On 30 April 2019, we published an initial consultation (“the April consultation”) on how we proposed to review the efficient costs of rolling out smart meters and how we proposed to set the non-pass-through Smart Meter Net Cost Change (SMNCC) allowance (“the allowance”) in the default tariff cap (“the cap”).<sup>1</sup>
2. We are responding to stakeholders’ major themes through a suite of Response Papers.<sup>2</sup> This paper sets out our approach for providing sufficient transparency to stakeholders for them to understand our decision, the reasoning for it, and how we plan to disclose the new SMNCC model that supports it.

### **Background**

3. In the April consultation, we proposed to disclose the non-pass-through SMNCC model (“SMNCC model”) in a confidentiality ring. This disclosure would be alongside the substantive consultation on our new methodology, which we intended to publish in late October or early November 2019.
4. In Response Paper #1, we updated stakeholders on our proposed timing for the substantive consultation and disclosure of our modelling.<sup>3</sup> We proposed to:
  - provide the substantive consultation on our methodology and disclose our modelling in October; and
  - present our proposals in an implementable form (a statutory consultation with draft licence conditions, if required).<sup>4</sup> If significant revisions are required as a result of consulting on our proposal in October, we will delay the implementation of the methodology proposals and will consult on a revised methodology in the New Year.
5. Most suppliers welcomed our proposal to disclose the SMNCC model, but noted that the suitability of our approach would depend on the specific detail of our proposals. Suppliers commented on many different aspects of how we might design disclosure

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<sup>1</sup> Ofgem (2019), Reviewing smart metering costs in the default tariff cap.

(<https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap>)

<sup>2</sup> See Ofgem (2019), Reviewing smart metering costs in the default tariff cap: Response Papers 1 and 2

(<https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-response-papers-1-and-2>) and Ofgem (2019), Reviewing smart metering costs in the default tariff cap: Response Papers 3 (<https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-response-paper-3>)

<sup>3</sup> Ofgem (2019), Reviewing smart metering costs in the default tariff cap: Response Paper 1.

(<https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-response-papers-1-and-2>)

<sup>4</sup> In that event, we would implement a methodology for cap period four using a contingency arrangement. See Response Paper #1.

arrangements, and stated their various preferences (which we consider below). They suggested that we describe our specific arrangements ahead of the substantive consultation to give stakeholders an opportunity to comment on them.

### **This Response Paper**

6. In this paper, we set out our arrangements for disclosing the SMNCC model. If suppliers wish to comment on them, we encourage them to provide comments before, and no later than, **Wednesday 18<sup>th</sup> September**.
7. In this paper, we have considered the issues and suppliers' views. Below we discuss:
  - What data we intend to make available (on a confidential or non-confidential basis); and
  - What arrangements we intend to put in place to share confidential information.
8. In addition to this Response Paper, we provide draft undertakings. We provide these for comment (on the same timescale as above) and to allow stakeholders to understand how the arrangements discussed in this paper would operate in practice.<sup>5</sup>

### **Summary of arrangements**

9. We intend to provide the following **Disclosed Material**:
  - a version of the SMNCC model, without individual supplier data;
  - a supplementary document of summary statistics on the confidential data underpinning key data inputs.
10. We aim to provide access to the Disclosed Material by means of a **Virtual Disclosure Room**, which will open one week after the publication of the substantive consultation and close at the end of the consultation period. Ofgem is currently procuring a Virtual Disclosure Room. If we cannot ensure it has the functionality we require, then we will provide the Disclosed Material directly, subject to confidentiality ring arrangements. Alongside this paper, we have provided draft undertaking for both circumstances.
11. We will provide the Disclosed Materials:
  - For the **Permitted Purpose** only, which is to review and understand the Disclosed Material in order to prepare submissions and representations to the Consultation; and
  - To **Relevant Parties**: A 'Relevant Party' for the purposes of disclosure could be any party which will be affected by this consultation, specifically supply licence holders, Citizens Advice or Citizens advice Scotland and any other party which the Authority has determined in its absolute discretion as likely to be affected by the proposed consultation.
12. Relevant Parties can:
  - request direct access to the Virtual Disclosure Room for a maximum of six named **Authorised Attendees** per Relevant Party. Authorised Attendees may be employees of, or third party advisers to, the Relevant Party.
  - request consent from Ofgem to disclose material to a named **Non-Authorised Person** for the purpose of facilitating the Permitted Purpose where there is a clear and demonstrable need for the Non-Authorised Person to receive the information to facilitate the Permitted Purpose.
13. If we are unable to implement our proposals in cap period four, then we will consult in the New Year on the results of our review and our proposed methodology for setting the

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<sup>5</sup> Ofgem (2019), Reviewing smart metering costs in the default tariff cap: Response Paper 4. (<https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-response-paper-4>)

SMNCC. Alongside that revised consultation, we will disclose our modelling using the same arrangements set out in this paper.

## Data to be made available

### Stakeholders' views

14. Suppliers emphasised that, to ensure effective scrutiny, we must disclose sufficient data for stakeholders to understand how the results of the model have been achieved. This would allow suppliers to make informed representations on our proposals, their rationale, and their implications.
15. Suppliers focussed on the disclosure of the SMNCC model and underlying data, so that they (or their representatives) could test sensitivity with a fully executable model.
16. Most suppliers requested that we provide directly to suppliers a non-confidential version of the SMNCC model (with individual suppliers' data removed). The SMNCC model is complex and contains market sensitive information. Suppliers acknowledged that we would not be permitted to provide the full model and datasets to them directly. Suppliers added that, although restrictions would be necessary, restrictions should be justified and our approach should be open by default.
17. Suppliers were divided on whether it was necessary or preferable for Ofgem to disclose a version of the SMNCC model with commercially sensitive information in it. If this confidential information were necessary for suppliers to understand and make representations on our approach, then suppliers agreed we could only make this information available to their third party advisers, subject to appropriate confidentiality arrangements.
18. Some suppliers recommended that we avoid disclosing confidential information. Reasons included the high costs of hiring advisers (which may be prohibitive for some suppliers), and a concern that advisers lack the operational or specialist knowledge of the data they are viewing which introduces a barrier to suppliers' ability to assess and understand the implications of Ofgem's proposals.
19. Some suppliers referred to the disclosure process we used in 2018 to consult on the current SMNCC model, which they considered unnecessarily restrictive. In particular, they considered use of a physical disclosure room and time available constraining, and that suppliers themselves, rather than their third party advisers, needed to scrutinise material disclosed.

### Our considerations

20. We have considered carefully what data we should disclose (and to whom), to ensure that that stakeholders can properly understand our proposals based on the information provided, consider the reasons for our decision, and test its sensitivities. This will ensure that stakeholders can provide meaningful representations to our consultation. We have also considered what is required for that purpose while ensuring that commercially sensitive data is protected, and processes are proportionate.

#### The Permitted Purpose

21. We will disclose material so that stakeholders (or their representatives) can review and understand our consultation proposals for the sole purpose of preparing submissions and representations to the Consultation<sup>6</sup> (the "**Permitted Purpose**").
22. We will disclose this material for the Permitted Purpose only. The Disclosed Material may not be used for any other purpose.

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<sup>6</sup> Our substantive consultation on our review of efficient smart metering costs and methodology for setting the non-pass-through SMNCC allowance in the default tariff cap. We plan to open this Consultation in mid-October. See Ofgem (2019), Reviewing smart metering costs in the default tariff cap: Response Paper 1. (<https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-response-papers-1-and-2>)

### Disclosing the SMNCC model without individual data

23. We will disclose a version of the SMNCC model, on which we will base our proposals. We will use the SMNCC model to calculate the efficient costs of the smart meter rollout and to set the SMNCC allowances.
24. We have considered suppliers' views on whether we can provide directly to suppliers a "non-confidential" version of the SMNCC model (a version without individual supplier data).

#### *Confidentiality*

25. We considered two circumstances where data in the SMNCC model would be confidential:
- individual stakeholders' data; and / or
  - average or aggregate data that could distort competition, if the reference point became known to market participants.
26. We cannot provide suppliers with a version of the SMNCC model that contains commercially sensitive individual supplier data. For instance, the model uses average costs which we have calculated from the various costs of individual suppliers.
27. We could, in principle, provide suppliers with a version of the SMNCC model without individual data. If individual data is not included, we do not consider that data in the SMNCC model would distort competition *between suppliers*. The (non-individual) data in the SMNCC model includes aggregate and average data (e.g. about costs, benefits, or other data, such as the number of smart meters and customer accounts), assumptions, and formulae used to calculate the SMNCC.
28. However, some of that (non-individual) data in the SMNCC model is commercially sensitive; it could distort competition *between stakeholders in other sections of the market* (for instance, cost assumptions that may influence the rates that Meter Asset Providers offer to suppliers).
29. On this basis, we could not make a version of the SMNCC model without individual data available publicly. However, we could, in principle, make it (and average / aggregate data) available to suppliers only (i.e. in a manner that would prevent further dissemination of the information disclosed). We could not provide access to other parties, where disclosure could distort competition (see paragraph 64 below).
30. We consider that suppliers can respond to the consultation, even if their advisers scrutinise the data disclosed. In 2018, suppliers relied on their advisers and provided extensive representations on our SMNCC modelling, which we took into account in our decision.

#### *Sufficiency for the Permitted Purpose*

31. We have considered whether a "non-confidential"<sup>7</sup> version of the model would be sufficient for suppliers to sufficiently understand our proposals and make representations for the Permitted Purpose.
32. We consider this approach would allow suppliers to understand and assess the SMNCC model, how we use it to assess the efficient costs of the smart meter rollout, and how we use it to set the SMNCC allowance.
33. The SMNCC model does not require individual supplier data to work. It is fully executable without the individual data on which its assumptions or inputs are based. Each of the calculations in the model relies on aggregate or average data. That data does not, or need not, reveal any individual's underlying data.

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<sup>7</sup> We use "non-confidential SMNCC model" to refer to a version of the SMNCC model without individual data included as it contains no information that is commercially sensitive *from the perspective of suppliers*. However, please note that this "non-confidential" model is confidential from a market wide perspective and could not be made public.

34. With this version of the SMNCC model, suppliers could assess the model, how it informs our decision, and whether that approach is adequate. For instance, suppliers could:
- understand the SMNCC model’s construction;
  - assess its formulae;
  - test the sensitivity of its results to changes in assumptions or inputs (for instance, by substituting the inputs in the model for different values to understand the impact on the SMNCC); and
  - assess its design (for instance, by substituting inputs in the model with the supplier’s own data to identify and assess modelling simplifications).
35. Suppliers would also be able to understand and make representations on specific costs, benefits, and underlying assumptions in the SMNCC model. Suppliers could:
- understand and assess the composition of total costs and benefits (for example, what value and proportion of total costs premature replacement charges constitute).
  - Understand and compare their own position to each line item in the SMNCC model. For example, a supplier can compare the asset cost in the model to their own experience.
36. This ‘gap analysis’ would enable suppliers to identify sufficiently areas where their costs and benefits differ from the SMNCC model. It is important to note that we do not expect any individual supplier’s costs to match the SMNCC model. In total and for each specific cost or benefit category, we expect each supplier’s costs and benefits will differ from those in the model. For instance, suppliers have different asset costs from each other and each of those costs may be different from the single asset cost used in the SMNCC model (for example, if it reflects the average cost in the range, or some other data point). ‘Gap analysis’ allows each supplier to understand where its experience differs from the model and make representations on those issues.
37. We have also considered how to ensure that suppliers sufficiently understand the methodologies used to generate inputs in the SMNCC model.<sup>8</sup> This includes the overall methodology for setting the SMNCC allowance, and methodologies used to calculate specific inputs (i.e. some inputs are averages of underlying data, whereas some inputs are set using a different calculation).
38. The SMNCC model, with or without individual data, does not include descriptions of the methodologies we use to generate inputs. However, we consider that additional material will be available to help suppliers sufficiently understand and provide representations on our methodology.
- **The published new Smart Metering Implementation Programme Cost Benefit Analysis (“the SMIP CBA”):** BEIS intend to publish its new SMIP CBA before we disclose the SMNCC model and present our proposals. The new SMIP CBA explains the methods used to produce estimates of the costs and benefits of the smart metering programme.
  - **The Consultation:** We will set out our high-level and detailed methodology in our substantive consultation document, which we will publish in October, shortly before we disclose the SMNCC model.
39. Where inputs in the model are calculated from ranges of individuals’ data, we propose to provide summary statistics that allow suppliers to consider the data, without revealing commercially sensitive individual data points. For instance, we could provide the simple (or weighted) average of the range, the number of data points, and the standard deviation of the range. This would allow suppliers to understand where

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<sup>8</sup> On that basis, this consideration is not directly relevant to the consideration of whether the “non-confidential” version of the model is sufficient, compared with a confidential version.

underlying data has the potential for variation (for example, because they have higher standard deviations).

#### The SMNCC model with individual data

40. We have also considered whether we are able, and whether it is necessary for us, to disclose the SMNCC model, with individual suppliers' data. As set out below, we have received a mixture of responses on the appropriateness and desirability of such an additional disclosure.

#### *Considering confidentiality*

41. Some suppliers considered that we should disclose as much of the information relating to the SMNCC model as possible, and if necessary to do so, disclose information with confidentiality restrictions to protect commercially sensitive information.
42. Individual supplier data is confidential and we cannot provide it to suppliers.
43. We could, in principle, disclose this information to suppliers' third party advisers, if sufficient confidentiality arrangements were in place. We would not do so if disclosing the "non-confidential" version of the model was already sufficient, or if the marginal benefit of disclosing this commercially sensitive information did not warrant the increased risk and resources required for disclosure.
44. In such a scenario, we would disclose the model with individual data to third party advisers and allow them to disclose the (non-individual) data discussed above (i.e. the data that would otherwise have been included in a "non-confidential" version). We consider it would be disproportionate and unnecessary to disclose both a "non-confidential" version of the SMNCC model to suppliers and a "confidential" version of the SMNCC model to their advisers.

#### *Considering necessity for the Permitted Purpose*

45. Some suppliers suggested that a confidential version of the SMNCC model was unhelpful, as it would minimise their ability to understand and make informed representations on the reasons for our proposals and their implications. The confidential version of the model requires third party advisers to access and disseminate information to suppliers. A number of suppliers considered that only suppliers themselves had the operational or specialist knowledge of the data. On that basis, advisers could be a barrier, or provide limited value.
46. Some suppliers suggested the confidential version was unnecessary, and that we should disclose a non-confidential version of the SMNCC model that allowed suppliers to avoid the cost of employing third party consultants.
47. We recognise that reliance on third parties could increase costs for suppliers, which if possible, it would be preferable to avoid.
48. We do not consider that the involvement of third parties would necessarily constrain suppliers' ability to understand and respond to our proposals.
49. We have considered whether disclosing commercially sensitive data to third party advisers would meaningfully add to suppliers' understanding, in addition to the information they could gain themselves directly from the "non-confidential" version of the model. We consider the additional value to be marginal. Advisers could not confirm the accuracy of other suppliers' data (i.e. individual data that is not their client's). Advisers could consider how averages (or other representative data points) relate to underlying data. As we have discussed above, we propose to provide summary statistics that would allow suppliers to assess this themselves, without requiring the additional risk, costs, and administrative constraints involved in releasing commercially sensitive data.
50. In the next section we discuss how we would disclose information to suppliers and/or their third party advisers. We must set arrangements that protect confidential data. However, no process that provides confidential information is free of risk. Providing individual data to advisers would disclose much more sensitive data and require more

stringent arrangements. This must be considered alongside our consideration that the individual data is unnecessary for suppliers to understand our proposals and their implications.

### **Disclosed Material**

51. On this basis we intend to disclose to suppliers the following **Disclosed Materials**:

- A version of the non-confidential SMNCC model without suppliers' individual data.
- A supplementary document describing, where relevant, the data ranges underlying inputs in the SMNCC model. We propose to include the average of the range, the number of data points in the range, and the standard deviation of the range.

52. We will not disclose a version of the SMNCC model containing individual supplier data.

### **How will data be disclosed?**

#### Suppliers' views

53. In the April consultation, we proposed to provide the model in a confidentiality ring.

54. In response, suppliers agreed with our proposal in principle, subject to the specific arrangements. Suppliers emphasised that we should only include commercially sensitive information in any confidentiality ring, and fully justify any proposed restrictions on disclosure. Suppliers also considered that we should not make unnecessary restrictions on their ability to communicate with their professional advisers, if required.

55. Some suppliers referred to the disclosure process we used in 2018 to consult on the current SMNCC model, which they considered unnecessarily restrictive. In particular, they considered use of a physical disclosure room and time available constraining.

#### Method of disclosure

56. We maintain our proposal to disclose the SMNCC model, subject to appropriate confidentiality arrangements. As discussed above, the SMNCC model (without individual data) contains information that is commercially sensitive *considering the market as a whole*. The model cannot be made publicly available.

57. We propose to make the Disclosed Materials available in a Virtual Disclosure Room. This will allow Authorised Attendees to access, review, and manipulate the SMNCC model through an online portal.

58. We are currently procuring this facility. We will need to confirm that the Virtual Disclosure Room has the functionality we require for stakeholders to review and manipulate the Disclosed Material, and to keep the Disclosed Material secure.

59. In the event that we are unable to procure a Virtual Disclosure Room that meets our requirements we will provide stakeholders with the disclosed materials directly. We would provide the Disclosed Material subject to assurances that stakeholders have sufficient processes to demonstrate that the Disclosed Materials would be appropriately collected from Ofgem, stored, reviewed, protected, and deleted.

60. We have also considered a physical data room. We do not consider that the physical disclosure room constrains suppliers' abilities to make sufficient representations for the Permitted Purpose. Suppliers made extensive representations in 2018, which we took into account in our decision. However, we regard a physical disclosure room as unnecessary for the Disclosed Material we have proposed in this case.

61. Alongside this paper, we have provided drafts of the undertakings we would require stakeholders to comply with in order to review the Disclosed Material. We have provided

drafts for both: the Virtual Disclosure Room (our preferred method of disclosure) and for the contingency arrangements in case we are required to take that approach.<sup>9</sup>

62. We have provided both sets of draft undertakings so that stakeholders are able to consider and prepare for the contingency arrangements, should they be required.

#### Access to the model

63. We will provide Relevant Parties with direct access to the Disclosed Materials. A **Relevant Party** for the purposes of these undertaking could be any party which will be affected by this consultation, specifically supply licence holders, Citizens Advice or Citizens advice Scotland and any other party which the Authority determined in its absolute discretion as likely to be affected by the proposed consultation.

64. We will not provide access to parties if that disclosure could distort competition. Although the data may not be sensitive from the perspective of an individual supplier, it is sensitive considering other stakeholders. We will only provide access to suppliers and other stakeholders that both:

- need to review the disclosed materials for the Permitted Purpose; and
- demonstrate that disclosure to that Related Party would not risk distorting competition.

65. We will provide access to the Disclosed Material on a need-to-know basis.

- For each Relevant Party, we will give access to a maximum of six named **Authorised Attendees**. Authorised Attendees can review Disclosed Material directly. They can be direct employees of the Relevant Party, or third Party advisers.
- Each Relevant Party may request consent to disclose material to a named **Non-Authorised Person** for the purpose of facilitating the Permitted Purpose where there is a clear and demonstrable need for the Non-Authorised Person to receive the information to facilitate the Permitted Purpose and such disclosure would be proportionate.

66. The restriction for Authorised Attendees and Non-Authorised Persons will ensure that data is available to individuals for the Permitted Purpose, and not intentionally or through carelessness disclosed more widely.

67. Before we grant access, Relevant Parties must provide a compliance document setting out how they will comply with the terms of the undertakings, and what measures they will put in place to ensure continuing compliance with the undertakings and to ensure that Authorised Attendees and non-Authorised Persons comply with their respective obligations. For instance, Relevant Parties should explain the controls they will put in place and explain why they are sufficiently robust.

68. The compliance document must be signed by a member of the board of the Relevant Party, as listed in the Relevant Party's company annual report. We may reject the compliance document if we are of the opinion (acting reasonably) that the evidence supplied by the Relevant Party is not sufficient to validate compliance with the undertakings. In this event, the Relevant Party may resubmit a revised compliance document. Only once this compliance document has been approved by Ofgem will the Relevant Party gain access to the Disclosed Material..

69. In addition, Relevant Parties must

- ensure that their Authorised Attendees and non-Authorised Persons have full knowledge of their obligations;
- take all steps to ensure that their Authorised Attendees and non-Authorised Persons comply with the terms of the Undertakings;

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<sup>9</sup> Ofgem (2019), Reviewing smart metering costs in the default tariff cap: Response Paper 4. (<https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-response-paper-4>)



- notify Ofgem immediately if they become aware of or suspect that there has been a breach of the undertakings

70. Alongside this consultation we have provided draft undertakings for comment. There are separate draft undertakings for Relevant Parties ("**Authorised Relevant Party Undertakings**") and Authorised Attendees ("**Individual Undertakings**").

71. Breach of the Undertakings may result in Ofgem:

- terminating the Authorised Attendee's and/or Relevant Party's access to the Virtual Disclosure Room;
- taking additional steps in relation to that particular Relevant Party and Authorised Attendee in any future exercises involving the disclosure of confidential information, such as the imposition of more onerous restrictions, additional requirements and guarantees, or refusal of access;
- taking appropriate legal action to protect the data;
- where relevant, referring the breach to the Authorised Attendee's regulatory body which may decide to take disciplinary action in relation to the breach.

72. If a breach is known or suspected we may discuss the matter with BEIS.<sup>10</sup>

## Timing of the Disclosure

### Stakeholders' views

73. Suppliers requested that we disclose material at the earliest opportunity, with some specifying that this should be in June (when we consulted on our approach to cap period three)<sup>11</sup> or August (for instance, alongside these response papers).

74. Some suppliers were concerned that the timeline would not allow suppliers access to the data with enough time to consider its accuracy and impact. In addition, some suppliers worried that, if we disclosed our model during the final stage of consultation, they may be unable to engage meaningfully while policy was at a formative stage.

### Approach

75. We propose to publish our substantive consultation in mid-October, closing the consultation in mid-November.

76. We propose to make the Virtual Disclosure Room available from one week after publishing our substantive consultation document and close it at the end of the consultation period.

77. We intend to finalise the Undertakings at the end of September and invite applications from Relevant Parties. . We intend to review applications and compliance documents in early October and, where they are sufficient, grant access to the disclosure room. Where we have concerns with an applicant's compliance document we will liaise with them so that they have an opportunity to address those concerns before the period of disclosure starts.

78. If we are unable to implement our proposals in cap period four (either because the new SMIP CBA is not published in time for the October consultation or we consider that we must consult on a revised methodology in the New Year), then we will implement an interim allowance in cap period four. In that event we will consult in the New Year on the results of our review of smart metering costs and our proposed methodology for setting the SMNCC from cap period five onwards. We will disclose our modelling alongside that consultation under the same conditions as above.

<sup>10</sup> Much of the data in the new SMNCC model is part of the new SMIP CBA and is therefore BEIS's data.

<sup>11</sup> Ofgem (2019), Default tariff cap: approach to the third cap period (<https://www.ofgem.gov.uk/publications-and-updates/default-tariff-cap-approach-third-cap-period>)

## Considerations

79. We responded to suppliers' views on our general approach and timelines in Response Paper #1, published on 16 August 2019. Please refer to that paper for detail.
80. As we discussed in Response Paper #1, we are disclosing material alongside our consultation at the earliest opportunity. Suppliers noted that our methodology and disclosure is dependent on the new SMIP CBA, which is not yet published. On that basis, we have not been able to confirm and provide our proposed methodology and models at an earlier stage. We expect the new SMIP CBA to be published before our October consultation, allowing suppliers to familiarise themselves with it, and consider our proposals in that context.
81. Also in Response Paper #1 we made clear that the substantive consultation is a formative stage of our policy development. If, after consultation, we need to make significant changes to our methodology to the extent that we would need to consult on a revised methodology in the New Year, then we will not implement the proposals in our substantive October consultation. The policy proposals will be 'implementable', but nonetheless we will consider alternative approaches based on representations and consult further on revised proposals if necessary.<sup>12</sup>
82. We discussed contingency arrangements in Response Paper #1. Our preferred option is to use the current SMNCC model and then retrospectively assess the cash allowance it sets using the new SMNCC model when available to ensure that funding for the smart meter rollout is appropriate. We used the current model to set the allowance for the first three cap periods and proposed to assess the first three allowances based on the updated assessment of efficient costs. On that basis, we would disclose the new SMNCC model alongside the consultation in the New Year, but do not consider it necessary to disclose the current SMNCC model in October.

## **Next steps**

83. If you wish to submit views on the issues discussed in this paper, we encourage you to get in touch with us as soon as possible, and in any event no later than close of business on **Wednesday 18 September 2019**.
84. Please provide any comments to **[retailpriceregulation@ofgem.gov.uk](mailto:retailpriceregulation@ofgem.gov.uk)**. Please provide as much detail as possible to explain and justify your views.

Yours faithfully,

**Anna Rossington**

Deputy Director – Retail Price Protection

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<sup>12</sup> See Response Paper #1 for more detail.