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6 September 2019

Dear Anna

SMNCC Response Paper #1

Thank you for the opportunity to comment on your Response Paper 1, approach and timeline.

Under the circumstances, we believe Ofgem's proposals are reasonable. We acknowledge that, due to delays to the SMIP CBA, Ofgem is unable to consult with industry as previously planned. We welcome Ofgem's continued efforts to provide transparency and consult appropriately where possible should the new SMIP CBA be available before October.

We also welcome Ofgem's recognition of the need to *"not uncritically assume that the new SMIP CBA will be appropriate for [its] purposes when developing the new SMNCC model"* and that you will *"consider what is appropriate for the SMNCC model on a case by case basis."*

We agree that, should one of the two circumstances occur that make it inappropriate or impossible for Ofgem to use the new SMIP CBA for cap period 4, using the current SMNCC for that cap period is the most sensible option.

We are concerned, however, about Ofgem linking the continued use of the current SMNCC (where the new SMIP CBA is not available) to having *"regard for advanced or lagged payments in the first three (or in this case, four) cap periods as assessed using the new SMNCC when it is available"*. We do not agree with Ofgem's conclusion that in order to continue using the current SMNCC in the fourth cap period, there is a need to retrospectively account for advanced or lagged payments following use of the new SMIP CBA to reassess the costs for the first three (or four) periods. We will comment

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further on this in our response to Paper 3.

If you require any further information on the concerns we have raised above, please do not hesitate to contact me.

Yours sincerely

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