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Dear Anna

**SMNCC Response Paper #3**

Thank you for the opportunity to comment on your Response Paper 3, having regard for carry forward balances.

We disagree strongly with Ofgem's arguments for taking forecast errors into account in its review of the SMNCC, when it ruled out the use of correction mechanisms for the default tariff cap as a whole. There was no indication in Ofgem's final decision, nor the drafting of SLC 28AD, that suggested such a mechanism would be under consideration as part of this review, and therefore suppliers had no opportunity to feed back on that during the consultation periods for the default tariff cap.

We believe there is the potential for any claw back in future cap periods to be detrimental to the smart rollout; the default tariff cap is already inadequate, given the significant number of additional costs that the headroom now has to cover (for example RO and FiT mutualisations), leaving little if any room for forecast errors within the cap. It is also likely to put additional financial strain on suppliers, and could result in further exits from the market.

We urge Ofgem to reconsider its proposals to have regard for advance or lagged payments in the first three (or four) cap periods. It is unreasonable, in our opinion, to allow a correction mechanism in one part of the default tariff cap whilst refusing to consider it in other parts.

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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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