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Anna Rossington
Deputy Director, Retail Price Protection
Consumers and Markets
Ofgem
10 South Colonnade
London E14 4PU

Email: alisonrussell@utilita.co.uk

Dear Anna,

Re: Response Paper #3: Reviewing smart metering costs in the Default Tariff Cap – having regard for carry forward balances

Thank you for the opportunity to comment on the above Response Paper. We support the approach that Ofgem is taking in sharing developing thinking and allowing market participants to comment.

We have some concerns on the proposed approach. In paragraph 1.5, reference is made to having regard to advanced or lagged payments. We consider that this would have an adverse impact on suppliers which have grown, as the recovery would occur on larger numbers of supply points than the excessive allowance of the past.

We would wish to understand whether Ofgem proposes all costs should be reviewed in this way. If that is not the case, we do not understand the justification for this cost alone to be reviewed. By the same logic, the Prepayment Charge Restriction should incorporate a very large additional allowance to compensate for significant historical understatement from April 2017 to September 2019.

In paragraph 2.10, the document notes that over the life of the rollout, the timing differences between individual suppliers' costs and the allowance in any specific price cap period should offset. This could only be the case at a supplier level for a static portfolio. As this would adversely impact growing suppliers, we believe this change would favour the six large energy suppliers at the expense of smaller, challenger suppliers. On this basis, we do not consider the proposed approach to be appropriate.

In paragraph 4.4, Ofgem notes that they would expect a surplus carry forward balance if they did not assess the allowances in the first three cap periods using the new SMNCC model. We do not understand how this can be known with confidence. Each period should reflect the best extant view of future costs. This being so, we do not understand the view on future balances.

Again, considering the text in 4.6, Ofgem asserts that funding provided would match the total efficient costs using the proposed approach. We disagree. This could only be true for static portfolios and may lead to unearned benefits for reducing portfolios. This is not equitable and will not support a level playing field for competition.

In paragraph 5.9, Ofgem notes funding to suppliers at an installation rate of 12.5% of the rollout obligation every six months. The allowances assume a specific efficient cost position which would not be offset by future variances. This is true, but neither would other errors necessarily, especially given the short time period of the cap. Adjustments of this sort introduce uncertainty. There could also be endemic error in the prevailing estimation.

Paragraph 5.12 also fails to recognise the supplier position. We are a growing supplier, and well ahead of the national average for smart installation. Retrospective reductions such as that proposed punish us for installing smart meters and growing our customer base which is inequitable.

We oppose the approach set out in the paper of making a singular adjustment of this type. Implementing the change by the proposed route has clear potential for adverse effects on those suppliers who are growing actively, and who have acted early to bring smart benefits to their customers.

We hope these comments have been helpful, and we would of course be happy to discuss any points in more detail.

Kind regards

By email

Alison Russell
Director of Policy and Regulatory Affairs