



## Reviewing smart metering costs in the default tariff cap

We welcome the opportunity to comment on Ofgem's latest proposals for setting the non-pass-through SMNCC for future cap periods.

We are concerned, however, that Ofgem has provided insufficient time both to examine the proposed model and respond to the consultation. E.ON had no opportunity to examine the original SMNCC model (as Ofgem would only allow third parties to review it and report back to suppliers) and the proposed revised model is only be available to us for less than four weeks. This is insufficient time to understand a model that runs to 40 complex and inter-related tabs, digest the proposals defined in the consultation and produce a considered and fully-informed response. The restrictions placed on those who have access to the model, or are allowed to discuss its content, denies suppliers the ability to share their views through our trade organisation, Energy UK; this could have allowed joint discussion on issues to ensure a better understanding of the proposals and a more thorough and complete review of both the model and the consultation.

Ofgem's policy on consulting states that the timescales for responses to consultations will be:

- Major issues of wide interest: 12 weeks (this is the maximum)
- Issues with narrower impact and of more specific interest: eight weeks
- Urgent issues, or minor changes to existing policy, or if we're following another organisation's timetable, licence, or other regulatory or statutory requirement: four weeks

Ofgem may claim that this issue was urgent and thus required a four-week consultation period. However, Ofgem has indicated that it will not issue its statutory consultation until the New Year<sup>1</sup>; thus, while suppliers have only four weeks to make sense of a complex set of issues, Ofgem has at least eight weeks to consider responses to this consultation. We maintain that stakeholders should have been given at least eight weeks to review the model and respond to the consultation due to the material impacts these proposals will have for the SMNCC allowance (to £11.30 in cap period 4 compared to £20.50 in cap period 3). That would still have allowed Ofgem at least four weeks to consider responses and complete the draft of the statutory consultation. Alternatively, it could adopt its contingency proposals in order to ensure stakeholders have sufficient time and information to provide an intelligent response. Given that Ofgem has suggested that there will be a high bar for re-opening its decision on SMNCC values (and we assume this applies to other elements of the default price cap methodology), we should be given a more reasonable amount of time to review Ofgem's proposals.

We re-iterate comments we have made previously concerning the limitations put on suppliers in respect of access to the revised model. We do not understand the logic for placing the non-confidential elements of the SMNCC model in the virtual disclosure room instead of publishing it. In addition, Ofgem placed restrictions so that only third parties could access the Disclosed Data; given the costs involved in employing a third party for this purpose and the limited value it would be likely

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/08/response\\_paper\\_1\\_-\\_our\\_approach\\_and\\_timeline.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/08/response_paper_1_-_our_approach_and_timeline.pdf), para 38



to provide (a third party would have limited understanding and knowledge of E.ON's processes) has meant that we, and we suspect many other suppliers, will have been unable to see the full picture.

In the timescales permitted and without knowledge of the current non-pass-through SMNCC model, we have the following comments.

1. We welcome Ofgem's approach to this review. With respect to use of information contained in BEIS' cost benefit analysis (CBA), Ofgem appears to have taken a sensible approach to excluding or apportioning costs and benefits not relevant to suppliers' costs in serving default tariff customers. In addition, Ofgem has clearly taken note of information provided by suppliers in its recent requests for information on certain aspects of the non-pass-through SMNCC costs.
2. We also welcome Ofgem's proposal to set the efficient level of costs at the average level rather than at the lowest quartile, and we agree with Ofgem's justification for this.
3. We are concerned, however, that external parties have not had the opportunity to scrutinise BEIS' SMIP CBA and comment on its accuracy. As the non-pass-through SMNCC is heavily reliant on the conclusions BEIS reached in the CBA, errors in that document will be reflected in Ofgem's methodology that could be to the detriment of suppliers, or even to consumers.
4. In addition, we have been unable to confirm whether the changes Ofgem is making to the revised model are accurately reflected, as we have not seen the current non-pass-through SMNCC model.
5. Ofgem's proposals are based on BEIS' provisional roll-out targets in its post-2020 consultation. No decision has yet been made on that consultation and it is possible that, in taking stakeholder comments into account, BEIS may make changes to its proposals. If this were to happen and the change is material, we would expect Ofgem to take it into consideration before making a decision on this consultation. If BEIS does not announce its decision on the post-2020 consultation before Ofgem needs to issue its decision on this consultation, then if it is to adopt its proposals for the cap period commencing 1 April 2020, we would expect Ofgem to adopt its contingency arrangements for that cap period and consult further in the New Year.
6. Within the timescales permitted, our checks so far have not revealed any inaccuracies or errors in the calculations made in the revised model. Given more time, access to the current model and access to the Disclosed Data, we would be able to undertake a more thorough review to assure ourselves of the robustness of the model.
7. Overall, we are concerned that suppliers have not been given sufficient information in sufficiently clear terms to enable them to make an intelligent response to Ofgem's consultation and strongly recommend that Ofgem adopts its contingency proposal for the next cap period to allow time to consult further and with more complete information provided to stakeholders.
8. With respect to Ofgem's proposals in respect of clawback, we reiterate concerns we have previously stated. Despite Ofgem's claims to the contrary, we firmly believe this is a correction mechanism; Ofgem has refused to consider correction mechanisms for other aspects of smart metering costs and, in the interests of consistency, should not apply them to the SMNCC. However, should Ofgem pursue its proposal to claw back what it considers to be 'over-payments' in the first three cap periods, we trust it will take a consistent approach in correcting



for under-payment in cap period one, in accordance with the judgement in the case of The Queen (on behalf of British Gas Trading Limited) and The Gas and Electricity Markets Authority<sup>2</sup>.

9. We accept Ofgem's proposals for a contingency allowance in the event that there is a need for a further policy consultation, and recommend that this be adopted for the cap period commencing 1 April 2020 to allow Ofgem time to provide sufficient information to allow stakeholders to properly consider a fully-informed response.

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<sup>2</sup> <https://www.bailii.org/ew/cases/EWHC/Admin/2019/3048.html>