

19 November 2019

Anna Rossington
Deputy Director, Retail Price Regulation
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Email: alisonrussell@utilita.co.uk

Dear Anna,

Re: Reviewing smart metering costs in the default tariff cap.

Thank you for the opportunity to comment on the above consultation. We have significant concerns with the proposed carry forward reduction in allowance to account for historical over recovery of smart meter rollout costs.

In terms of other proposals, we note that the allowance for smart metering costs decreases because of the changes to the government's cost benefit allowance assessment of the smart meter roll out. The reduction in allowance per cap period is due to the longer timescale for the rollout now than assumed in the government's last CBA that was used previously rather than any more substantive change.

The argument of adjusting for the historical over-recovery of smart metering costs, however, only holds where suppliers have a static portfolio. Any adjustment must ensure that suppliers face a level playing field and reflect the effects of non-static portfolios. This is a point we have made previously and is acknowledged in the document (point 4.44, page 94). In response Ofgem does concede the potential for inequitable outcomes.

There are also significant broader implications which result from the approach of retrospective adjustment. Ofgem considers an adjustment for over-recovery of costs is, exceptionally, justifiable in this case because the error is 'non-systematic' and will not 'net out' in the long run (4.56 page 97). Adjusting for this non-systematic error sets a precedent that other non-systematic errors must also be accounted for in future price caps.

The most significant of these errors to date is, of course, the material error in the formulation of the prepayment price cap before its recent review by the CMA. This is directly comparable, will not net out in the long run and meets the test that the impact is significant.

That the error existed - and even its precise value - have been established by the CMA's review of the prepayment charge restriction. The error can therefore be accurately quantified.

While we understand this is outside the scope of this consultation, we consider that the approach of setting this precedent would indicate that Ofgem should urgently evaluate and address potential adjustments for other non-systematic errors of this type. If Ofgem

proposes to take this approach forward, adjusting future cap levels needs to be balanced and to address both historic over and under recovery equitably.

In addition to the points above, we note and are supportive of the majority of the concerns and detailed points raised by Energy-UK in their response.

Finally, we are disappointed that Ofgem has only allowed a short consultation period. The consultation has an enduring impact, it is not a working paper and as such, it merits a longer consultation period. Best practice in consultations would indicate a period of at least six to eight weeks or more, this would allow consultees to manage workloads at times of competing consultations and respond effectively. Unfortunately, four weeks is becoming common, and we ask that Ofgem considers extending this period in future where possible.

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

Yours sincerely,

By email

Alison Russell
Director of Policy & Regulatory Affairs