

All stakeholders

Email: RetailPriceRegulation@ofgem.gov.uk

Date: 05 June 2020

Dear Stakeholders,

### **Consultation on minor changes to 'Annex 5 – Methodology for determining the Smart Metering Net Cost Change' of SLC 28AD**

The default tariff cap ("cap") includes a smart metering net cost change (SMNCC) allowance. This is an allowance for the changes in the net costs of smart meters since 2017. The SMNCC is set out in 'Annex 5 – Methodology for determining the Smart Metering Net Cost Change' of SLC 28AD. The SMNCC consists of two components, the pass-through SMNCC and the non-pass-through SMNCC.

In May 2020 we published two consultations on our proposals for smart metering costs in the default tariff cap, and for protecting energy consumers with prepayment meters (PPM). Both these consultations involve changes to the SMNCC. We have disclosed the model we use to calculate the SMNCC alongside those consultations.

We also need to make changes to Annex 5 in order to make it consistent with the proposed changes:

- add new input rows for PPM non-pass-through SMNCC;
- clarify the source of SMETS2 meter volumes used to determine one component of the pass-through SMNCC

We have published the revised Annex 5 alongside this letter.

#### **PPM non-pass-through SMNCC**

In our consultation on protecting energy consumers with prepayment meters<sup>1</sup>, we include our proposals to set a non-pass-through SMNCC allowance, which accounts for the net impact of replacing expensive traditional prepayment meters with cheaper smart meters on the efficient operating costs of a suppliers with an average rollout profile.

Alongside that consultation we disclosed the full SMNCC model that we used to calculate the proposed PPM SMNCC.

Our changes to Annex 5 reflect these proposals. Specifically, we have added input rows for PPM so that Annex 5 can reflect the different SMNCC levels for PPM and credit meters.

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<sup>1</sup> Ofgem (2019), Statutory consultation for protecting energy consumers with prepayment meters.  
<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-protecting-energy-consumers-prepayment-meters>

## **Pass-through SMNCC**

The pass-through SMNCC is an allowance for changes in industry body charges (such as those from the Data Communications Company (DCC) and Smart Energy GB) over and above the 2017 level, which we include in the operating cost allowance. We are proposing to change Annex 5 to clarify the source of SMETS2 meter volumes used to determine the communications hubs fixed charge element of DCC charges.

### **Proposed changes**

We propose to change our source of SMETS2 meter volumes from the original non-pass-through SMNCC model to the relevant non-pass-through SMNCC model that will apply to the upcoming cap period that we are calculating the DCC charges for. We are currently consulting on revisions to the non-pass-through SMNCC allowance and therefore a decision on the non-pass-through SMNCC model is still to be determined.<sup>2</sup> We propose to align our source with the decision made from this consultation and resulting from any future reviews of the non-pass-through SMNCC model.

Our proposed changes to the volume of SMETS2 communications hubs would be made in 'Annex 5 – Methodology for determining the Smart Metering Net Cost Change' of SLC 28AD. We propose to make changes to sheet '2c DCC' to change the source text in cells C14 and C15 from "The model Assumptions"<sup>3</sup> to "The assumptions in the model in place during the cap period". We have published the revised Annex 5 alongside this letter.

This means that, in each six-monthly update of the cap level, we propose to use the number of SMETS2 meters from the non-pass-through SMNCC model that will be in place for that six-month cap period to populate the relevant cells in lines 14 and 15. After any changes to the non-pass-through SMNCC model, we only propose to change the assumptions for future cap periods, leaving the values for historical cap periods unchanged. For example, if we were to proceed with changes to the non-pass-through SMNCC model ahead of the cap period starting in October 2020, we would edit O14:U14 and O15:U15, but we would not propose to change the historical values in cells K14:N14 or K15:N15.

### **Background**

Communications hubs send information from a smart meter to suppliers (via other organisations, such as the DCC). The cost of communications hubs for SMETS2 meters are recovered in DCC charges. These costs are included in the pass-through SMNCC allowance in the cap.

We calculate the pass-through SMNCC for each six-monthly cap level update, using publically available charging statements and budgets. In our 2018 decision<sup>4</sup> we decided to use the original non-pass-through SMNCC model as our source for the volume of SMETS2 meters, to determine the SMETS2 communications hubs fixed charge element of DCC charges. We also made decisions on assumptions in the original non-pass-through model, including the roll-out profile and a simplified split of SMETS1 to SMETS2 meters that would ultimately determine the SMETS2 meter volumes.

We are currently consulting on changes to the non-pass-through SMNCC model, and have signalled our intent to conduct regular reviews which might involve further modifications. The proposed changes to the non-pass-through SMNCC model are outside the scope of this letter. If you have views on the non-pass-through SMNCC model, including the volume of

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<sup>2</sup> Ofgem (2019), reviewing smart metering costs in the default tariff cap: May 2020 statutory consultation <https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-may-2020-statutory-consultation>

<sup>3</sup> In Annex 5, the term "the model" refers to the non-pass-through SMNCC model.

<sup>4</sup>Ofgem (2018), Appendix 7 – smart metering costs, pg22.

[https://www.ofgem.gov.uk/system/files/docs/2018/11/appendix\\_7\\_-\\_smart\\_metering\\_costs.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/11/appendix_7_-_smart_metering_costs.pdf)

SMETS2 meters, please provide comments via the live consultation 'Reviewing smart metering costs in the default tariff cap: May 2020 statutory consultation'.<sup>5</sup>

This letter invites comments on our proposal to change the **source** of the SMETS2 volumes to whichever non-pass-through model will apply to the upcoming cap period that we are calculating the DCC charges for.

### **Next steps**

We welcome views on the proposed changes set out in this letter. We ask stakeholders to include any comments to [RetailPriceRegulation@ofgem.gov.uk](mailto:RetailPriceRegulation@ofgem.gov.uk) by **close on 3 July 2020**.

Yours faithfully,

Anna Rossington  
Deputy Director, Consumers and Markets

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<sup>5</sup>Ofgem (2019) reviewing smart metering costs in the default tariff cap – May 2020 consultation.  
[https://www.ofgem.gov.uk/system/files/docs/2020/05/reviewing\\_smart\\_metering\\_costs\\_in\\_the\\_default\\_tariff\\_cap\\_may\\_2020.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/05/reviewing_smart_metering_costs_in_the_default_tariff_cap_may_2020.pdf)