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By email to: Retailpriceregulation@ofgem.gov.uk

Dear Anna

Consultation on minor changes to ‘Annex 5 – Methodology for determining the Smart Metering Net Cost Change’ of SLC 28AD¹

Centrica notes Ofgem’s proposals to make ‘minor changes’ to Annex 5, specifically to:

- 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.

Ofgem explains its changes as being necessary to reflect the potential range of outcomes from the SMNCC and PPM Consultations. For example, Ofgem says the inclusion of input rows for PPM is needed so Ofgem ‘can reflect the different SMNCC levels for PPM and credit meters’; and it says the SMETS2 meter volume source change is needed to reflect ‘whichever non-pass-through model will apply’.

We have therefore responded on the understanding that Ofgem’s changes are intended to allow for different outcomes, but will neither prejudge the outcomes of, nor close off any options arising from, those other consultations. Nothing in this response is intended to in any way qualify or modify Centrica’s views about the next steps Ofgem must take, as set out in our response to the SMNCC and PPM Consultations.

Taking the two proposed changes in turn:

¹https://www.ofgem.gov.uk/system/files/docs/2020/06/consultation_on_minor_changes_to_annex_5_-_methodology_for_determining_.pdf

PPM non-pass-through SMNCC

As set out in our response to the substantive consultation, Ofgem's non-contingency consultation proposals for PPM non-pass-through SMNCC cannot be implemented as they stand. In these circumstances, Ofgem must adopt the contingency option of rolling forward the current PPM cap methodology unchanged – equivalent to setting PPM non-pass-through SMNCC to zero.

While this could be achieved by adding new input rows into Annex 5 and then expressly setting them to zero, it would clearly not be appropriate to provide for PPM specific input values based on Ofgem's primary consultation proposals.

Pass-through SMNCC

Pass-through SMNCC is not part of Ofgem's substantive consultations on credit or PPM non-pass-through SMNCC so it is concerning that Ofgem should propose substantive changes only in a non-statutory consultation on supposedly 'minor' changes. As we understand it, Ofgem's proposal is to change the source of certain input values so they are able to reflect different choices of SMNCC model.² Depending on the choices made, this could lead to highly material changes in pass-through SMNCC that have not previously been clearly communicated to stakeholders, much less consulted on.

We understand from Ofgem's present consultation letter that Ofgem chose to use a simplified split of SMETS1 and SMETS2 meters with rollout assumptions embedded in its 'old' SMNCC model to derive the SMETS2 communications hubs fixed charge element of DCC charges.

In principle, it may be appropriate to revisit these assumptions - but only in the context of further substantive consultations that are necessary in the light of BEIS' confirmed policy decisions regarding the policy target of 100% smart penetration by mid-2025.

For the avoidance of doubt, it is not appropriate to base estimation of fixed pass-through costs associated with SMETS2 communications on the low historic average 'ARS' profile proposed by Ofgem. Our response to the SMNCC and PPM consultations explains why Ofgem's proposed rollout profile is unlawful and cannot be implemented.

Yours sincerely



Tim Dewhurst
Regulatory Affairs Director

² Centrica does not have access to Ofgem's 'old' SMNCC model, and access to Ofgem's 'new' SMNCC model is restricted to a "permitted purpose" which does not explicitly include responding to related consultations about pass-through SMNCC.