

Email: retailpriceregulation@ofgem.gov.uk

Date: 22 March 2021

Disclosure Arrangements for the late-Spring 2021 consultations on the default tariff cap

1. In late-April to early-May 2021, we intend to publish two consultations, setting out our proposals to adjust how we calculate the default tariff cap ("the cap"). We propose to:
 - update the non-pass through Smart Meter Net Cost Change allowance for credit customers ("SMNCC"), which accounts for the net impact of the smart meter rollout on the operating costs of a supplier operating efficiently; and
 - update the non-pass through Smart Meter Net Cost Change allowance for prepayment meter ("PPM") customers, following on from our decision in August 2020 to protect default tariff PPM customers beyond the expiry of the existing PPM cap.
2. This letter sets out the disclosure arrangements for those consultations.

Context

3. We must consult on our proposals and publish our decisions by 6 August 2021. This will allow us to take those changes into account when we set the level for the next cap period (1 October 2021 to 31 March 2022).
4. Our proposals rely on detailed modelling and analysis. In order for stakeholders to understand our proposals, we consider it necessary to disclose the key models and data that underpin our proposals.
5. We intend for these disclosure arrangements to follow a similar process to our May 2020 disclosure arrangements.¹

¹ Ofgem (2020), May 2020 consultations on changes to the default tariff cap: Disclosure arrangements. <https://www.ofgem.gov.uk/publications-and-updates/may-2020-consultations-changes-default-tariff-cap-disclosure-arrangements>

Disclosure relating to SMNCC and PPM customers consultations

The impact on operating costs of installing smart meters

6. We calculate the non-pass through SMNCC using the SMNCC Model, which takes BEIS's 2019 cost-benefit analysis model as a starting point. The SMNCC Model calculates SMNCC allowances for both credit and PPM customers.
7. We used a version of the SMNCC Model to set the credit SMNCC in our August 2020 decision.² We are now reviewing the credit SMNCC. We published two working papers to inform this review in November 2020³ and January 2021.⁴
8. In August 2020, we decided to set the PPM SMNCC at zero until 30 September 2021.⁵ We are now carrying out a review to determine an appropriate PPM SMNCC. We published two working papers to inform this review in November 2020⁶ and January 2021.⁷
9. After taking into account feedback to these working papers and incorporating new data where appropriate, we will have a revised SMNCC model to underpin our consultation proposals.

Disclosing our analysis

10. During the consultation period, we will disclose, through two confidentiality rings (the "SMNCC & PPM Confidentiality Rings"):
 - Our modelling ("Disclosed SMNCC & PPM Model") to suppliers and their advisers. This includes the full and revised SMNCC model, in the form which underpins our proposals.
 - Underlying data ("Disclosed SMNCC & PPM Data") to the advisers representing suppliers. This includes underlying data that we have used to calculate inputs in the

² Ofgem (2020), Decision on reviewing smart metering costs in the default tariff cap.

<https://www.ofgem.gov.uk/publications-and-updates/decision-reviewing-smart-metering-costs-default-tariff-cap>

³ Ofgem (2020), Updating the allowance for smart metering costs in the default tariff cap: working paper.

<https://www.ofgem.gov.uk/publications-and-updates/updating-allowance-smart-metering-costs-default-tariff-cap-working-paper>

⁴ Ofgem (2021), Smart meter rollout and the default tariff cap: working paper.

<https://www.ofgem.gov.uk/publications-and-updates/smart-meter-rollout-and-default-tariff-cap-working-paper>

⁵ Ofgem (2020), Decision on protecting energy consumers with prepayment meters

<https://www.ofgem.gov.uk/publications-and-updates/decision-protecting-energy-consumers-prepayment-meters>

⁶ Ofgem (2020), Setting the PPM smart meter cost allowance in the default tariff cap – working paper.

<https://www.ofgem.gov.uk/publications-and-updates/setting-ppm-smart-meter-cost-allowance-default-tariff-cap-working-paper>

⁷ Ofgem (2021), Setting the level of rollout for the PPM smart meter cost allowance: working paper.

<https://www.ofgem.gov.uk/publications-and-updates/setting-level-rollout-ppm-smart-meter-cost-allowance-working-paper>

SMNCC model. This is principally data about individual suppliers and is commercially sensitive, so we cannot provide it directly or indirectly to suppliers.

11. If we consider it helpful to provide additional data during the consultation process, we will add it to either the Disclosed SMNCC & PPM Model or Disclosed SMNCC & PPM Data schedules as appropriate.

12. Access to the SMNCC & PPM Confidentiality Rings is provided for the “Permitted Purpose” that is the sole purpose of allowing stakeholders, and/or those on behalf of stakeholders, to review and understand the information underpinning our proposals, in order to:

- prepare submissions and representations to the consultations; and
- to enable the stakeholder (if relevant) to prepare and conduct an appeal against any decision we take in connection with the consultations, including an appeal in which the stakeholder is, or is intending to apply to be, an intervener.

Compliance Documents

13. We require stakeholders and each of their advisors to set out in separate “Compliance Documents” how they will comply with the terms of the SMNCC & PPM Confidentiality Rings. That Compliance Document should describe the arrangements each party have in place to keep the disclosed material secure. At a minimum the Compliance Document should explain, briefly:

- **Security Arrangements:** Processes to store electronic and physical copies of the disclosed material, and in doing so maintain their confidentiality in accordance with the Undertakings.
- **Working Environment Arrangements:** Processes to ensure that Authorised Attendees can work on the disclosed material and discuss their contents, and in doing so maintain their confidentiality in accordance with the Undertakings.
- **Support Arrangements:** Processes to ensure that Authorised Attendees are aware of their responsibilities and the arrangements the Relevant Party has in place, that sufficient monitoring and governance is in place to maintain confidentiality, and that support and guidance is available to authorised Attendees.

14. In assessing these arrangements, we will take into account the current circumstances relating to the coronavirus pandemic and the impact it has had on stakeholders. We are aware stakeholders (and their advisers) have instated arrangements for working from home or may instate a partial return to the office, including where their staff or advisers have confidential data. We expect that these arrangements will be suitable for our purposes. Stakeholders need only describe how they would apply those arrangements in the context of the confidentiality rings.

15. Stakeholders should note that the requirements for the Compliance Document are in line with our requirements for the May 2020 disclosure arrangements.

Undertakings

16. Alongside this note we have published the template undertakings for those that wish to participate in the confidentiality rings. Stakeholders should review those documents to consider the detailed arrangements.

- The Relevant Party Undertakings and Authorised Attendee Undertakings relate to the Disclosed SMNCC & PPM Model.
- The Firm Undertakings and Consultant Undertakings relate to the Disclosed SMNCC & PPM Data.

17. Copies of the undertakings for signatories will be provided following submission of Compliance Documents.

Process for disclosure

18. Stakeholders wishing to participate in the SMNCC & PPM Confidentiality Rings should:

- register interest by emailing retailpriceregulation@ofgem.gov.uk as soon as possible, specifying whether they seek access to the Disclosed SMNCC & PPM Model, Disclosed SMNCC & PPM Data, or both;
- provide a draft Compliance Document for review by Ofgem by **Tuesday 6th April 2021**. (Ofgem will provide undertakings for signatories to sign following this);
- provide names, roles, and contact details (email addresses) for proposed Attendees and proposed Consultants by **Wednesday 14th April**; and

- provide signed undertakings by **Friday 16th April**.

Contact

19. All correspondence and expressions of interest should be sent to

retailpriceregulation@ofgem.gov.uk

Kind regards,

Karen Mayor

Deputy Director – Retail Monitoring, Compliance & Price Cap Policy (interim)