

21 December 2020

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Dear Anna,

**Re: Setting the PPM smart meter cost allowance in the Default Tariff Cap and Updating allowance for smart metering costs in the Default Tariff Cap – working papers**

Thank you for the opportunity to respond to the above working papers. This letter forms Utilita's non-confidential response to both documents.

As you are aware, Utilita is primarily a smart prepay supplier, focusing on providing high quality services to a sector of the market which is frequently poorly served. We have provided significant, well evidenced submissions to Ofgem in respect of both the Default Tariff Cap (DTC) and the Prepayment Charge Restriction (PCR) both prior to and following the October 2019 update of the PCR. We continue to maintain those points, in particular around the injustice of the cross-subsidy and the explicit failure to allow prepay specialists such as ourselves to recover our efficient costs.

We welcome Ofgem's continuing approach of issuing working papers to explain early thinking and to allow input from participants.

**Setting the PPM smart meter cost allowance in the DTC**

We have reviewed the document and have only limited comments to make at this stage, we have set out specific comments with reference to paragraphs from the text and more general comments below.

- a) Para 2.17  
We note the proposal to increase the meter asset life to 14 years for electricity and 12 years for gas. We agree that this appears reasonable for electricity, and while we have not validated the gas number, the approach seems sensible.
- b) Para 2.30  
This para sets out the proposal to reduce the cost to serve benefit attributed by 12%, and that this is in line with the credit SMNCC proposed for the August 2020. We agree that in principle this seems a reasonable approach. However we would want to consider this more fully when the model is available, to ensure that the 12% is indeed appropriate given the unique factors affecting prepay.
- c) Para 3.24  
This para sets out the proposed approach to carry-forward. We do not support carry-forward of over or under provision in principle unless this is extended to

other areas of the prepayment price caps; Ofgem's own assessment of the prepayment price cap up to October 2019 is that it was substantially understated. A carry-forward only for those elements of the cap that are likely to reduce the level of the cap is unacceptable, and any carry-forward of over recovered smart metering costs should be accompanied by a carry-forward of far the larger under-recovered efficient costs of prepayment supply.

If there must be a carry-forward for NPT SMNCC, it should start from the beginning of price-capping. Otherwise, it is likely suppliers will substantially under-recover the costs of historical under-provision for smart metering costs, while at the same time perhaps having a small over-recovery for a short period being deducted from a future cap period.

d) Para 3.31

This paragraph sets out the limited proposals for offset. While we accept that these are only illustrative examples, we still wish to make the following observations at the working paper stage.

If there must be a carry forward, it should be an aggregate of previous periods against and (the aggregate of) offsetting under-recovery in previous periods. This both avoids the problem of carrying forward the wrong amount and ensures fairness to both energy suppliers and customers.

In general, although we do not believe Ofgem raises this specifically in the working paper, Ofgem should consider the changes in factual costs over time. The proposed approach of a comparison of factual against counter-factual at a point in the past, and then comparing this outcome with another factual and counter-factual situation at a different point in time may not address the necessary problems. Such a methodology, as proposed in the May 2020 consultation, reduces transparency and greatly increases the chance of error.

e) Setting the SMNCC at nil consumption

We are generally supportive of this approach. We agree that the costs to be addressed are independent of consumption, and hence applying the costs to the first band is an equitable solution.

### Updating allowance for smart metering costs in the Default Tariff Cap

We have reviewed the document and have only limited comments to make at this stage, we have set out specific comments with reference to paragraphs from the text and more general comments below.

a) Para 3.5

We request clarification on two aspects of this section

- a. Ofgem makes the assumption that installation numbers in 2020 were 30% of the level previously expected.

Please provide the analysis underlying this assumption

- b. Ofgem states the following:

*"We estimated the expected cost per installation by starting with the installation cost from 2019. We then assumed that absent COVID-19, installer productivity in 2020 would have been in line with the average over 2017-2019 and adjusted the 2019 installation cost accordingly"*

Please would you clarify why one period has been used for costs per installation, and another for installation productivity. We believe that to

increase robustness and maintain consistency, wherever possible data from the same period should be used, especially where figures are not mutually exclusive but interdependent.

b) Considering sunk installation costs

We would like Ofgem to consider with suppliers the difficulty vs benefit of providing actual data for Option 1. If the data is available, it would be preferable to use it. If data cannot reasonably be provided, then we agree that Option 2 should be used. Using actual data, where available in a timely manner, would reduce the potential for error.

### **BSUoS Charging Methodology**

Finally, while not covered by the working papers above, we would also like to highlight the recent approval of a change to the BSUoS Charging Methodology from 2023, such that all charges are levied on final demand. Without modification to the price cap methodology, this will have significant financial repercussions for all energy retailers.

Currently BSUoS charges are levied on both retailers and generators. As this moves to final demand only, there may be a reduction in wholesale prices, which will be correctly reflected in the price cap allowance for wholesale energy costs. The allowance for BSUoS charging, however, is based on historical incurred BSUoS rates, which will not reflect the higher rate. Furthermore, as the price capping regime must end in December 2023, there is no chance of recovery in a future period.

We ask that Ofgem considers this position at an early date to provide confidence to suppliers on the future path. We believe that options to address could include an appropriate adjustment to the price cap determination methodology for BSUoS charging, or potentially a delayed implementation of this change to 1st January 2024 to align to the end of the current DTC arrangements.

We would be happy to discuss any of the points above in more detail. Please do not hesitate to contact us.

Yours sincerely,

By email

Alison Russell  
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