

30 May 2019

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

Dear Anna,

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

Thank you for the opportunity to comment on the above consultation. We acknowledge that this document is the first in a series of consultations on the process to review the SMNCC element of the costs in the default tariff cap (DTC), and that we will have further opportunities to comment.

We expect to have more detailed input to offer on future consultations, as more information on the proposed methodology and process becomes available. We welcome the approach of allowing parties to input throughout the process of Ofgem's developing thinking. We would be happy to discuss any points with the team and to participate in any workgroups Ofgem arranges to support the methodology development work.

We agree with the general approach of using a range of efficient costs to ensure that efficient suppliers can finance their activities. However, the approach should cater for the variability in costs which can be associated with different customers. Consumers are not homogeneous and may have varying costs of smart installation due to historical or geographic issues. The approach should not lead to a poorer range of choices or services being made available to such customers.

We understand the need for a two-stage approach to updating the non-pass-through SMNCC due to the timelines required. However, this should not lead to supplier cost under-recovery.

At this early stage, we have limited comments to make on the broader proposals and have one main concern.

Ofgem notes in paragraph 4.3 of the consultation that it may give regard to the extent to which the allowances in the first three cap periods provided advance funding, above the actual efficient costs in those periods (or conversely if lagged payments would be needed to cover any shortfall in the allowance). Ofgem further sets out that it would not automatically include any such impact in the calculation of the allowances for the fourth and subsequent cap periods.

The implicit assumption is that suppliers have static portfolios. If allowances for smart meter costs have been overstated in the past, reducing future allowances will unfairly penalise

suppliers with growing portfolios, i.e. the suppliers who did not benefit from the allowance being too high on customers they have acquired. This will lead to an arbitrary transfer from growing suppliers, who may be reasonably assumed to be serving customers well, to suppliers with shrinking portfolios, that may be serving customers less well.

If this decision is taken, it sets a precedent that all costs ought to be reviewed ex-post to establish any over or under provision and adjust future cap levels accordingly. This would be an onerous task and contrary to Ofgem's position in its setting of the DTC in general. Any over or under provision for smart meter costs in the first three cap periods should not be accounted for by adjusting this allowance in a future cap period.

We hope this submission has been helpful, and would be happy to discuss any point raised in more detail.

Yours sincerely,

By email only

Alison Russell  
Director of Policy & Regulatory Affairs