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

Email: [alisonrussell@utilita.co.uk](mailto:alisonrussell@utilita.co.uk)

Dear Anna,

**Re: Default Tariff Cap: Approach to the third cap period**

Thank you for the opportunity to respond to the above consultation document. The document sets out the proposed approach by Ofgem, in respect of the Smart Metering Net Cost Change (SMNCC) for the third cap period relating to the Default Tariff Cap (DTC).

While Utilita would generally prefer that key elements of a cap methodology are not simply rolled forward, we agree that in this instance and for a single cap period, the interim approach makes sense. The reason why we support an interim approach on this occasion is that if the SMNCC is not rolled forward, then based on current drafting there would be no SMNCC value for the third cap period. In our view this would be more detrimental than simply rolling forward the current value, as suppliers' incremental smart metering costs would not be recognised.

The approach of maintaining the current non-pass through SMNCC model in its entirety for the third cap period is sensible, given the short period of time. However, if the approach were to be further extended, this may need to be reconsidered.

We also support the approach of including the allowance within the relevant cap period rather than in arrears, wherever possible. Clawback of any marginal over-recovery in future periods would also be detrimental and should be excluded. This interim proposal relates to a six-month period only and impacts of a marginal over-recovery are unlikely to be significant, or justifiable on cost grounds.

Finally, we note the error which is to be corrected, and welcome the transparency provided, though we would welcome clarity from Ofgem on the magnitude of the impact, both in the uncorrected period, and for the values going forward. It would be helpful if this could be included in the decision document.

In considering the fourth cap period and beyond, we agree that the SMNCC allowance should be reviewed, and we welcome Ofgem's consideration of the additional data to be collected as part of the process. We would urge Ofgem to provide clarity and consult on these points at the earliest opportunity. In many cases, the complex data necessary for methodology developments may be difficult to gather, Ofgem can assist suppliers in managing such

administrative issues by making the appropriate request early and allowing adequate time to respond. We welcome Ofgem's recent approach of circulating a new RFI in draft form for comment prior to issue, though as a minimum, a two to four-week period should be allowed for comment, especially during busy or holiday periods.

The document references the dependency on BEIS' Smart Metering Implementation Programme Cost Benefit Analysis (SMIP CBA) update. While we understand the reason for the dependency, we are concerned that if there were a delay to the SMIP CBA, this might have a knock-on impact on the plans for the SMNCC for the fourth cap period etc. We therefore ask that as part of the decision document, Ofgem communicates its contingency proposals in the case of a delay. As noted above, while a simple roll forward of the non-pass through SMNCC may be a pragmatic solution for a six-month cap period, this may not be so appropriate for a longer period.

With respect to the proposals on the capacity market, we are in general agreement with the proposed approach. We continue to hold the view that it is for suppliers to manage their obligations, and so we do not support other routes for collection of payments which may fall due.

In addition, particularly in respect of the Capacity Market, it is important to use actual data as much as possible, rather than estimates, we therefore support the use of the actual data for the third cap period allowance.

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

Yours sincerely,

*By email*

Alison Russell  
Director of Policy and Regulatory Affairs.