

Email: retailpriceregulation@ofgem.gov.uk

Date: 21 April 2020

Disclosure Arrangements for May 2020 consultations on the default tariff cap

1. In May 2020, we intend to publish three 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;
 - introduce a new cap level for default tariff customers with prepayment meters (“PPM customers”); and
 - reassess the wholesale allowance in the first cap period.
2. This letter sets out the disclosure arrangements for those consultations.

Context

3. Given the impact of the coronavirus (COVID-19) pandemic, on 16 April 2020 we explained how we are focusing our activities on the most time-critical work we carry out for consumers.¹ We set out activities that will continue, which include consulting on proposals to adjust the way we calculate the cap.

¹ Ofgem (2020), Ofgem information for energy licensees on coronavirus (COVID-19) response. <https://www.ofgem.gov.uk/publications-and-updates/ofgem-information-energy-licensees-coronavirus-covid-19-response>

4. We must consult on proposals and publish a decision by 6 August 2020. This will allow us to take those changes into account when we set the level for the next cap period (1 October 2020 to 31 March 2021). If we did not consult on changes then the cap would be misstated. We seek to publish our decisions by the end of July 2020.
5. Our proposals rely on detailed modelling and analysis. In order for stakeholders to understand our proposals in detail, we must disclose the models and data that underpin our proposals.
6. We have considered suppliers' views on the disclosure arrangements for our October 2019 consultation. We set our views in our January 2020 update.²

Disclosure relating to SMNCC and PPM customers consultations

The impact on operating costs of installing smart meters

7. We calculate the non-pass through SMNCC using the SMNCC Model, which takes BEIS's 2019 cost-benefit analysis model as a starting point.³ In response to suppliers' feedback to our October 2019 consultation we have revised the SMNCC model.⁴ That revised model will underpin our proposals in May.
8. In our March 2020 consultation, we proposed to protect PPM customers after the PPM cap expires at the end of 2020.⁵ We proposed to include PPM customers in the cap. We proposed to calculate a specific non-pass through SMNCC for PPM customers, as the impact of replacing a traditional prepayment meter with a smart meter differs from the impact on operating costs of replacing a traditional credit meter. On that basis, we now include PPM costs and benefits in the SMNCC model. That revised model will underpin our proposals in May.

Disclosing our analysis

9. During the consultation period, we will disclose, through a confidentiality ring (the SMNCC & PPM Confidentiality Ring):

² Ofgem (2020), Reviewing smart metering costs in the default tariff cap: Update and response to the October 2019 consultation. <https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-update-and-response-october-2019-consultation>

³ BEIS (2019), Smart meter roll-out: cost-benefit analysis 2019.

<https://www.gov.uk/government/publications/smart-meter-roll-out-cost-benefit-analysis-2019>

⁴ Ofgem (2019), Reviewing smart metering costs in the default tariff cap: October consultation. <https://www.ofgem.gov.uk/publications-and-updates/reviewing-smart-metering-costs-default-tariff-cap-october-consultation>

⁵ Ofgem (2020), Policy consultation for protecting energy consumers with prepayment meters. <https://www.ofgem.gov.uk/publications-and-updates/policy-consultation-protecting-energy-consumers-prepayment-meters>

- Our modelling (“Disclosed SMNCC & PPM Model”) to suppliers. This includes the full and revised SMNCC model, in the form which underpins our proposals.
 - Underlying data (“Disclosed SMNCC & PPM Data”) to independent consultants representing suppliers. This includes underlying data that we have used to calculate inputs in the SMNCC model. This includes data about individual suppliers and is commercially sensitive, so we cannot provide it directly or indirectly to suppliers.
10. If we consider it helpful to provide additional data, we will add them to either the Disclosed SMNCC & PPM Model or Disclosed SMNCC & PPM Data schedules as appropriate.
11. Access to SMNCC & PPM Confidentiality Ring 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.
12. We require stakeholders to set out in a “Compliance Document” how they will comply with the terms of the SMNCC & PPM Confidentiality Ring. That Compliance Document should describe the arrangement the stakeholders has 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.

13. 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 suppliers have instated arrangements for working for home, including where their staff or advisers have confidential data. We expect that these arrangements will be suitable for our purposes. Suppliers need only describe how they would apply those arrangements in the context of the confidentiality ring.
14. Alongside this note we have published the undertakings for those that wish to participate in the confidentiality ring.⁶ 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.
15. Word copies of the undertakings are available on request for completion and submission.

Process for disclosure

16. Stakeholders wishing to participate in the SMNCC & PPM Confidentiality Ring should:
 - register interest as soon as possible specifying whether it seeks access to the Disclosed SMNCC & PPM Model, Disclosed SMNCC & PPM Data, or both;
 - provide a draft Compliance Document for review by Ofgem by **Wednesday 29 April 2020**;
 - provide names, roles, and contact details (email addresses) for proposed Attendees and proposed Consultants by **Monday 4 May**; and
 - provide signed undertakings by **Thursday 7 May**.

⁶ 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 the wholesale reassessment

Background

17. As described in our January 2020 consultation we have assessed the comparable wholesale costs of relevant suppliers based on their actual historical hedging strategies.⁷
18. For each supplier, in each cap period, we:
 - model the supplier's (a) profile of accumulated energy volumes using its stated historical hedging strategy and (b) actual profile of accumulated energy volumes purchased for the relevant cap period;
 - replace the observation window in the wholesale allowance methodology with the supplier's profile of energy volumes using the stated strategy and actual profile;
 - calculate for the relevant cap period the comparable £ per MWh and comparable amount recovered per customer with typical consumption in that cap period.
19. For each supplier, the models are the same. Only the inputs relating to each supplier's hedging strategy differ.

Disclosure

20. During the consultation, we intend to provide to each supplier:
 - the final updated models, calculating their comparable wholesale costs in £ per MWh and £ per customer with typical consumption in that cap period; and
 - the outputs of each other supplier's models for each cap period.
21. This allows each supplier to understand:
 - how we have modelled comparable costs, using suppliers' historical hedging strategies;
 - what the outcome of our analysis on each supplier is; and
 - how we propose to calculate the level of a single allowance based on the varied outputs of each supplier.

⁷ Ofgem (2020), Reassessing the wholesale allowance in the first default tariff cap period: January 2020 consultation. <https://www.ofgem.gov.uk/publications-and-updates/reassessing-wholesale-allowance-first-default-tariff-cap-period-january-2020-consultation>

22. In their consultation responses, some suppliers suggested that they would wish to see each other's hedging strategies, if we were to exclude any supplier as an outlier. We do not propose to such an exclusion, for reasons we will explain in the forthcoming consultation.

Contact

23. All correspondence and expressions of interest should be sent to retailpriceregulation@ofgem.gov.uk.

Kind regards

Anna Rossington

Deputy Director – Retail Price Regulation