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### **Price Cap: Final Consultations on updating the Credit and Prepayment SMNCC Allowance**

EDF is the UK's largest producer of low carbon electricity. We operate low carbon nuclear power stations and are building the first of a new generation of nuclear plants. We also have a large and growing portfolio of renewable generation, including onshore and offshore wind and solar generation, as well as energy storage. We have around five million electricity and gas customer accounts, including residential and business users.

EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

We welcome the opportunity to provide comments on the two final Ofgem consultations that form part of its work in updating the Smart Metering Net Code Change (SMNCC) allowance in the Default Tariff Cap (DTC) in time for winter 2021-22. We are fully supportive of Ofgem undertaking regular robust and accurate reviews of the smart metering allowance within the DTC. It is vitally important that Ofgem's SMNCC model is updated with the latest supplier data on smart metering costs and that the allowance set by Ofgem appropriately reflects suppliers' efficient costs and does not in any way constrain suppliers' ability to meet their ongoing smart metering obligations.

This consolidated response sets out EDF's views on the final consultations (published in April 2021) covering both the credit and prepayment SMNCC allowance and the subsequent addendum published on 1 June 2021.

#### **Assumed rollout profile**

##### *Credit allowance*

In responding to Ofgem's earlier working papers, EDF was supportive of Ofgem exploring whether the existing weighted average rollout profile approach remained appropriate in setting the SMNCC allowance, as suppliers transitioned from an all reasonable steps obligation to a new smart metering policy framework that includes obligated annual installation targets.

**We welcome Ofgem's proposal to adopt a 'market leader' rollout approach.** Adopting such an approach within Ofgem's model should result in an SMNCC allowance that provides for **all**

suppliers to recover their efficient costs of meeting their smart metering obligations. A supplier's ability to recover their efficient costs could arise from either or both the rollout profile assumed, and the overall estimate of smart metering costs included within Ofgem's modelling. Using a market leader profile approach could minimise the overall risk of suppliers being unable to recover their costs and any consequential delays in the rollout of smart meters. It would also reduce the risk of restricting funding at a time when suppliers are already encountering challenges in achieving smart metering penetration and which are expected to continue under the new policy framework.

Under the new BEIS smart meter policy framework we anticipate the incremental cost of installs is likely to increase as suppliers look to adopt additional measures to address the customer engagement challenges in order to achieve the level of annual installs and ultimately market-wide rollout as required under the new policy framework. If Ofgem proceed with a market leader tolerance level approach (as proposed within the final consultation) then there remains a risk that a cohort of suppliers would still not recover their efficient costs and consequently reduce their rollout plans.

We accept that in isolation, and all other efficient costs appropriately factored in, Ofgem's proposal should provide for a smart metering allowance that enables suppliers to recover their efficient costs in meeting their smart metering obligations. However, we note that such an approach does not provide any incentive or allowance for suppliers to go above and beyond their annual obligated (tolerance) targets or minimise the risks from the SMNCC allowance underestimating efficient costs more generally.

#### Prepayment allowance

EDF is supportive of Ofgem adopting a PPM specific rollout profile based on the weighted average PPM rollout. This approach, which is different to that being proposed for credit, would reflect the greater variation in PPM rollout progress across suppliers, relative to average progress, compared to credit. It is also recognised that adopting a market leader approach for PPM would likely result in an underfunding of suppliers given the market leader is far ahead of all other suppliers in terms of smart PPM rollout, and Ofgem's modelling suggests they would therefore be experiencing higher smart meter benefits than other suppliers.

#### **Advanced payments**

We accept that Ofgem's approach and modelling for advanced payments appears consistent with Ofgem's stated methodology, as per the data and models provided. As previously highlighted to Ofgem, we remain opposed to the policy for an advanced payment adjustment given the impact it may have on suppliers' ability to recover efficient costs in future cap periods. The existence of this risk is much more significant in the context of a financially challenging energy market and the ability in general for suppliers to recover under the tariff cap their efficient costs of serving default customers. We also consider that a fair basis for introducing a mechanism for claw back is difficult to achieve and could lead to under or over recovery and increased regulatory uncertainty for suppliers.

On this basis Ofgem should, as it has chosen to do for other adjustments such as the COVID-19 impacts, only seek to make an adjustment where it can confidently identify material differences between the allowance provided and the efficient costs incurred by suppliers in any cap period, particularly given the scale of uncertainty around cost assumptions in setting the overall price cap value under the existing methodology.

### **Productivity assumptions**

We disagree with Ofgem's proposal to use BEIS's operational fulfilment improvements analysis which has a direct impact on the assumed installer productivity and thereby estimated costs per installation in future years within the model.

As part of the work to design a post 2020 smart metering policy framework BEIS has developed expectations for suppliers' operational fulfilment to improve in future years. While operational fulfilment remains an area of opportunity it is significantly limited for suppliers with mature programmes who are now facing small volumes of newly eligible customers overshadowed by large volumes of customers who have been contacted multiple times via multiple channels throughout the rollout. Despite the significant investment by suppliers and supporting organisations, the landscape has not materially shifted, and customer acceptance remains the primary hurdle. As such the assumptions within BEIS' modelling around customer acceptance and operational fulfilment are overly optimistic and not reflective of any likely scenario. They are not supported by any objective evidence visible to EDF.

Consequently, the proposals are likely to underestimate suppliers' installation costs moving forward. Ofgem should revisit its proposals in order to gain confidence that its assumptions will not lead to an SMNCC allowance that underfunds suppliers' ongoing efficient costs.

### **Addendum to consultations on reviewing the credit and PPM SMNCC allowances**

#### Cap Period 7:

In terms of Ofgem's updated proposals for Cap Period 7, as set out in the addendum published on 1 June, we are broadly supportive of Ofgem adopting a contingency approach for setting the SMNCC value. Using the revised SMNCC model as basis to calculate the SMNCC value for Cap Period 7 is the right approach as it would better reflect the latest data on supplier's smart metering costs. However, we would raise the following two points on the specific proposals.

Firstly, we believe our installation levels for 2021 are likely to be the same irrespective of whether we are subject to the current all reasonable steps obligation or the new BEIS policy framework that will introduce annual target levels. It is in the best interests of suppliers (and consumers) to install smart meters as fast as practicable regardless of the framework. On this basis, Ofgem should look to continue with its market leader rollout profile approach as it would have originally done if the new BEIS policy framework was to be introduced in advance of Cap Period 7 as national install levels are in practice unlikely to be affected by the implementation date change.

Secondly, in the event Ofgem proceed with moving away from its original proposals and adopt a revised rollout profile under a continued all reasonable steps approach for the remainder of 2021, EDF does not consider it appropriate for Ofgem to assume that rollout in Q3 and Q4 2021 will be the same as the supplier forecasts for Q2 2021 provided to BEIS. Q2 supplier forecasts are very likely to retain some residual COVID-19 impacts on installation levels, whereas these impacts on installation rates are currently expected to continue to decline throughout the remainder of 2021. Ofgem's proposed approach therefore is likely to be overly conservative on the installation levels that are expected to be achieved in Q3 and Q4 of 2021. Ofgem should look to adjust its installation assumptions for Q3 and Q4, including exploring the potential for acquiring additional supplier information on expected 2021 installation levels to validate its approach.

Cap Period 8:

Given the change in timings for the introduction of the smart metering policy framework that have been announced and which followed the publication of the final SMNCC consultations, we agree that it would be sensible for Ofgem to consult further later in the year regarding the SMNCC for Cap Period 8. This would allow Ofgem to better reflect the actual install progress made in the remainder of 2021 and to fully reflect the new policy framework that will come in to place from January 2022 when setting a smart allowance for Cap Period 8 commencing in April 2022.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Jon Cole or myself. I can confirm that this letter may be published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink that reads 'R. Beresford'.

Rebecca Beresford  
**Head of Customers Policy and Regulation**