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Response Paper #1 Reviewing Smart Metering Costs in the Default Tariff Cap – Our Approach and Timeline

EDF Energy welcomes the opportunity to provide comments on Ofgem's general approach and timetable for its review of smart metering costs, including any required contingency arrangements for cap period 4.

Ofgem has made clear that in reviewing the efficient costs of the smart meter rollout, and for the development of a new Smart Meter Net Cost Change (SMNCC) model, it will use the new SMIP CBA as a starting point. Ofgem's approach will also include an assessment of the new SMIP CBA to determine the suitability of some assumptions and their appropriateness for the SMNCC, and to perform additional data gathering where gaps exist, in order to ensure it has a sufficient robust evidence base to develop its model.

The uncertainty around the publication of the revised SMIP CBA has quite rightly led to Ofgem considering what contingency arrangement should be put in place for cap period 4. Ofgem has stated that in the event that SMIP CBA is not published before October 2019, suitable contingency arrangements will need to be implemented. We consider the likelihood of this occurring is very high.

Consequently, given this uncertainty and the ever diminishing timeframes in which to conduct a full and effective consultation process on revising its model, we believe (as in the case for cap period 3) Ofgem should adopt an interim approach and use an unadjusted version of the current model for cap period 4. Only when the SMIP CBA has been published and Ofgem has a full picture of the evidence base required to revise its model to reflect the updated efficient costs of the smart programme, should Ofgem commence a full and effective consultation process with stakeholders.

Finally, we consider that it is essential that stakeholders have sufficient opportunity to scrutinise the accuracy and assumptions of the revised SMIP CBA once it is published, before it is incorporated into any updated SMNCC analysis. This external validation is required in order to ensure that Ofgem's approach to revising its methodology has led to a robust estimate of net costs. We observe that, even if the SMIP CBA is published shortly, the constrained timeframes would prevent a full and effective review and consultation process to be performed in advance of setting the cap level for cap period 4. Consequently, even in this scenario, we recommend that Ofgem adopts an interim approach, and looks to implement a revised methodology from cap period 5.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre, or myself.

Yours sincerely,

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

Rebecca Beresford
Head of Customers Policy and Regulation