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Response Paper #3 Reviewing Smart Metering Costs in the Default Tariff Cap – Having regard for Carry Forward Balances

EDF Energy welcomes the opportunity to provide comments on the above paper.

We recognise that the intent of Ofgem's overall SMNCC methodology is to deliver a smart metering allowance that enables the full recovery of efficient smart costs over the course of the smart metering rollout. Given that neither smart meter volumes nor costs have out turned in line with assumptions used to set the smart metering cost allowance in the default tariff cap to date, we appreciate the challenges facing Ofgem in considering how best to ensure smart meter costs are fairly reflected in the default tariff cap for future periods.

Crucially, however, we continue to oppose the proposed use by Ofgem of any retrospective correction mechanism within its model for future cap periods in order to address any instances where it subsequently considers that the allowance was somewhat different to the actual efficient costs in earlier periods. The adoption of such a policy risks distorting competition, would bring unreasonable regulatory risk, and is highly likely to lead to suppliers not being able to recover the efficient costs of their roll-out programme. Specifically, it cannot be demonstrated that any difference in numbers of smart meters installed compared to the assumptions underpinning previous price cap periods has led directly to an impact on total revenue earned by suppliers overall, given other material factors including rising costs, and changing customer portfolios.

We consider an approach which takes into account past costs in the determination of future allowances would be particularly problematic given the fact that supplier portfolios do not remain stable over the price cap period. The result could be to not allow a supplier to recover the efficient cost of installing smart meters for customers it has gained through the change of supplier process, on the basis that funding had already been provided to the previous supplier.

This would put those suppliers with growing customer portfolios at a disadvantage and introduces the very risks that Ofgem itself identified when ruling out the use of such correction mechanisms when designing the price cap. We note that switching levels under the cap have remained high, with 5.8 million electricity and gas switches reported in the first six months of 2019, which would indicate that risks described above are a significant factor to consider.

If Ofgem were to progress an assessment of carry forward balances, as well as reviewing the roll-out profile, it would be essential that it also consider the extent to which actual efficient net costs per meter have diverged from that assumed in the current SMNCC model. It should also include an assessment of the impact of the CMA's decision to not allow recovery of full smart costs through the PPM Cap.

Given the above, it is important that any such assessment is only carried out when Ofgem has at its disposal a full picture of the evidence base required to revise its smart metering cost model to reflect the updated efficient costs, including the publication of the revised SMIP CBA and a credible view of the future rollout profile. Only at this stage should Ofgem commence a full and transparent consultation process with stakeholders. We do not consider that Ofgem should look to make piecemeal adjustments in the meantime.

Consequently, we are concerned that even if the SMIP CBA is published shortly, the constrained timeframes may prevent a full and effective review and consultation process being performed in advance of setting the cap level for cap period 4.

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