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Protecting energy consumers with prepayment meters: May 2020 Statutory Consultation

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, as well as coal and gas stations and energy storage. We have around five million electricity and gas customer accounts, including residential and business users. EDF is committed to 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.

EDF welcomes the opportunity to provide comments on Ofgem's proposals for protecting energy consumers with prepayment meters following the ending later this year of the current prepayment charge restriction that was introduced by the CMA following its energy market investigation.

Continued protection for PPM customers

EDF acknowledges that following the introduction of the Domestic Gas and Electricity (Tariff Cap) Act 2018 it is current Government policy that all default energy customers should be subject to price protection measures. Indeed, the Tariff Cap Act provides for default PPM customers to fall within scope of the Default Tariff Cap (DTC) where no other price protection mechanism is in place for such customers. We accept therefore that PPM customers should not, following the ending of the current PPM Cap, be treated differently to those customers with alternative meter type and/or payment methods and should remain subject to appropriate price protection measures.

However, we do not agree with any assertion that continued protection is required for all PPM customers on the basis of technical barriers limiting competition and choice for such customers. In particular, there are an increasing number of PPM customers supplied through a SMETS2 meter (over 120K as at May 2020) that do not face the technical barriers that the CMA put forward as a basis for its PPM Cap. Furthermore, there is an expectation that there will be a greater focus on smart installs for prepayment customers as part of the remobilisation of the programme as we move out of the initial phase of the COVID-19 pandemic.

Protection Options

EDF is supportive of the proposal to use the DTC to provide protection to all PPM customers on a default tariff. We do not believe that a case has been made to replace the PPM Cap with another dedicated cap for PPM Customers. Making appropriate adjustments to the current DTC would appear more efficient and would ensure that price protection measures sit under a single price cap. Also, as in the case for non-PPM customers, it will mean price protection only applies to those on default tariffs and not all PPM customers. This would be consistent with current Government policy and the intent of the Tariff Cap Act.

Adjusting the DTC

EDF is supportive of Ofgem introducing a new PPM default tariff level that would apply to all PPM customers on default tariffs, regardless of their meter type. We agree that a single cap level for all PPM customers reduces complexity for suppliers and reduces the risk of customer confusion. As Ofgem has pointed out, the significant difference in costs between different PPM customer groups is that traditional prepayment meters are more expensive than smart meters. However, we agree with Ofgem's policy that the costs and benefits of the smart meter rollout should be borne by all customers.

In terms of the approach to be used to set the PPM cap level, we agree with the proposal to use the DTC methodology (and values) for all cost components except for the payment method uplift and the non-pass through SMNCC allowance.

Operating costs for customers with traditional meters

We understand the logic of Ofgem's proposed approach which to a large degree is designed to maintain the DTC's methodological approach. We observe that this will maintain the current price differential between cap levels for direct debit customers and PPM customer as it will maintain the current operating cost allowance and the current PPM uplift without further adjustments. We consider this to be a reasonable approach.

We understand the principle behind Ofgem's intentions to unwind the subsidy currently applied to PPM customers once the higher costs of traditional prepayment meters are removed and the costs of serving PPM customers is comparable to other customers. However, it remains unclear as to the specific method and over what period Ofgem will implement this policy.

Considering the impact of the smart meter roll out

EDF supports the adoption of a non-pass through SMNCC for PPM customers on the basis that it is right that all customers contribute towards all cost elements in the delivery of smart metering irrespective of whether they have accepted a smart meter.

We agree that there are a number of cost benefits to be achieved from the replacement of traditional prepayment meters with smart meters. However some of these benefits will take time to materialise as the levels of smart prepayment customers' increase. For instance, the fixed costs of retaining the existing legacy PPM infrastructure will remain for some time and it is important for the assumed customer service benefit assumptions to be reflective of actual supplier experience to date. Therefore when setting an SMNCC for PPM customers Ofgem should adopt a conservative approach in order to avoid the risk of overstating the benefits of the transition from legacy to smart prepayment, resulting in suppliers under recovering their costs to serve.

Future reviews of the SMNCC

We appreciate that at this point of time, Ofgem is unable to form a robust and accurate view of smart meter costs and set an appropriate SMNCC allowance for the remainder of the default tariff cap period. Not only does there remain uncertainty as to the future policy framework that will be put in place by BEIS and the impact any such policy will have on the costs faced by suppliers, there is much uncertainty around the speed, scope and costs of remobilisation of the programme as we move through the current COVID-19 crisis.

On this basis we are supportive of Ofgem conducting a further review of the SMNCC allowance in 12 months, in time for Cap Period 7 (commencing 1 October 2021). This should allow for an appropriate assessment of the implemented post 2020 regulatory framework and the costs suppliers are exposed to under such an approach, and that of the default tariff cap and the setting of an allowance that allows suppliers to recover their efficient costs. It will also allow Ofgem to appropriately reflect the exceptional impacts faced by suppliers as a consequence of COVID-19 and ensure that any additional efficient costs incurred by suppliers as a consequence of the crisis are accounted for in any future smart metering allowance. Although impacts are being seen across most customer types, there are specific impacts that relate directly to the supply of PPM customers including the need for additional measures to ensure such customers remain on supply and that they are fully supported throughout this exceptional period. Furthermore, COVID-19 has had and continues to have broader impacts (over and above smart metering) on suppliers' operational costs and as such we would like to see Ofgem commit to undertaking a full and timely review of COVID-19 impacts and seek to introduce wider adjustments to the price cap to ensure that it remains reflective of suppliers' efficient costs.

While supporting a further review in 12 months, we are unclear on the need for Ofgem at this stage to commit to undertaking reviews of the SMNCC allowance every 12 months. We acknowledge that further reviews beyond the next planned review may be required to address any exceptional circumstances, but we do not believe that Ofgem should be committing to undertake regular annual reviews. This would be a policy shift in how the DTC was originally developed and implemented; such that annual reviews would lead to a price cap that was set using a retrospective approach rather than the prospective approach that looked to make assumptions about supplier costs going forward and set an allowance accordingly. A retrospective approach introduces further regulatory risk on suppliers and could not only lead to future allowances being set at levels below average efficient costs for suppliers, but also negatively impacts the ability of suppliers to effectively plan and budget their smart metering programmes. As such the proposal for annual reviews would introduce continued uncertainty for suppliers and leave suppliers with limited ability to mitigate the risks of their operational decisions.

Timing for introducing the Cap

In the event that Ofgem proceeds with it proposals, aligning the timing of the changes with the October review of the DTC will mean these changes can be made more efficiently and will reduce any confusion for customers who may otherwise see multiple changes in pricing in fairly short succession. However, we encourage Ofgem to allow for flexibility when assessing suppliers' implementation of these changes for the next cap period.

We request that Ofgem allows suppliers a limited transitionary period where credits or rebates can be applied to ensure that customers are kept below the appropriate cap threshold. This flexibility is already in use in standard condition 22G Requirements for Restricted Meters, and Condition 22G.2 allows for the Relevant Tariff will apply retrospectively by those mechanisms. As Ofgem notes in its letter[1] dated 20 February 2017, "*in line with Ofgem's move to rely more on principles, we want to ensure that suppliers can act flexibly to deliver appropriate outcomes for these consumers*".

Allowing such flexibility would be prudent should there be a second wave of COVID-19, which would affect both supplier ability to apply complex changes and the ability of traditional PPM customers to vend their prepayment keys to download the updated tariff prices to their meters.

It is sensible that Ofgem considers the possibility of a second wave of COVID-19 and the need for regional lockdown restrictions, which the Government believes is conceivable, in its policy planning and decision making for the proposed October changes to the PPM level and default cap. As we note, there is precedent in the current licences to allowing compliance with tariff pricing retrospectively, it will be prudent as going into winter a second wave of COVID-19 is more likely, and is consistent with Ofgem's ambition that customers receive appropriate outcomes

Contingency

In the event that Ofgem is unable to implement its proposals with effect from 1 October 2020, it proposes to introduce the PPM cap level in the DTC with effect from 1 October 2020 using the current methodology for the CMA's PPM cap between 1 January and 31 March 2021 (with the inclusion of a non-pass-through SMNCC allowance set at £0). We believe this is a reasonable approach and would ensure the same level of protection for customers and continuity for suppliers between 1 October 2020 and 31 March 2021.

Licence condition drafting

The proposed definition of Prepayment includes the capitalised term 'Smart Meter', however, there is not a corresponding definition of Smart Meter in either the proposed licence drafting or existing electricity and gas licences. We have highlighted this below for your reference.

> ***'Prepayment'*** *means a Payment Method whereby a Domestic Customer pays the licensee for Charges for Supply Activities through a Prepayment Meter or a Smart Meter running in Prepayment Mode.*

Additional Clarification Question (dated 18 June 2020)

I can confirm that EDF's latest Annual Supplier Return submission to BEIS in respect of questions 3.9(a) and 3.9(b) was completed correctly and excluded meter rental payments in accordance with the guidance provided by BEIS.

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1 https://www.ofgem.gov.uk/system/files/docs/2017/02/suppliers_letter_for_restricted_meter_remedy_provision_of_information_to_rm_custs_final_20_feb_2017.pdf

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Steven Eyre or myself. I can confirm this letter is not confidential and may be published.

Yours sincerely

R. Beresford

Rebecca Beresford
Head of Customers Policy and Regulation