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Email to: priceprotectionpolicy@ofgem.gov.uk

20 September 2024

Dear Chris

Energy Price Cap Operating Cost Review: Smart Metering Working Paper

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. EDF also has a large and growing portfolio of renewables, including onshore and offshore wind and solar generation, as well as energy storage. With over five and a half 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.

EDF welcomes the opportunity to provide comments on Ofgem's working paper and its consideration as to whether there is a simpler way of estimating the future net cost of the smart meter rollout beyond those which will be included within the revised operating costs baseline. EDF is committed to supporting all of its customers to save cash and save carbon. It is why we recently completed a successful migration to the Kraken platform. It is why for 2 years running we have been the best performing large supplier on smart installs, and why last winter we provided an additional £27m of support to help our customers most in need in response to the ongoing Cost of Living crisis. This commitment to our customer is reflected in our Trustpilot score recently increasing to 4.5 out of 5.

The current non-pass-through smart metering net cost change allowance (SMNCC) model is complex and lacks transparency and so we welcome the publication of this paper and the clarity it provides on the current model and its consideration of options for how a simpler SMNCC model could work. Our views on the options presented in the paper are discussed further below.

Case for change

EDF remains of the view that a full and separate review of how smart meter costs are captured under the price cap should take place next year, alongside a resetting of the current

hard target-based rollout framework by DESNZ. The roll-out costs now far exceed those which are encapsulated within the price cap methodology, which is why it is key that a full resetting of the impact assessment and how costs are captured within the Operating Allowance is required. We, therefore, welcome acknowledgment by Ofgem that it will consider future changes required to adapt the price cap once a post 2025 framework is developed.

In the meantime, we agree with Ofgem that it needs to both adapt the current SMNCC approach to reflect the updated operating costs baseline (that includes updated metering related costs) and to continue to update the allowance annually as the future costs and benefits from the smart meter rollout remain uncertain. On this basis, in terms of how Ofgem plan to proceed with consideration for a post-2025 framework, we support the adoption of Option 2 to progress with the SMNCC review and consider the post-2025 framework following a decision on the revised rollout framework.

Setting the allowance for October 2024

EDF welcomes Ofgem's decision to update the SMNCC model with the latest data inputs to set the allowance for October 2024 onwards. To do otherwise would have likely involved an under recovery of supplier costs without any justifiable reason.

Simplified model options

EDF is supportive in principle of moving to a simpler approach to modelling the transitional costs of the smart meter rollout relative to the revised operating cost baseline in advance of a fuller review once the post 2025 framework has been established. The primary aim should be to ensure that the revised baseline correctly reflects the latest metering related costs; this would then allow a revised SMNCC model to focus on those cost components that are uncertain and or likely to vary significantly year on year. Cost components that are unlikely to change with the future rollout could be excluded thereby simplifying the current SMNCC model.

In terms of the options presented in the working paper, we do not consider any of the options presented currently meet the objective above. Specifically, it is important that any revised approach appropriately reflects the ongoing costs of replacing and upgrading meters as technology evolves and older technology becomes redundant (e.g. SMETS 1, 2G/3G etc). These costs are likely to be both significant and vary on year-on-year basis and therefore should be included in any revised SMNCC model. On this basis, we have developed an alternative option (see appendix) which continues to include the cost components that are likely to continue to remain uncertain and subject to material change moving forward. If it would be helpful, we would be happy to meet with Ofgem to discuss our thinking on this.

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

I confirm that this letter may be published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink, appearing to be 'John Mason', enclosed in a thin black rectangular border.

John Mason
Senior Manager - Senior Manager (Price Regulation and Market Dynamics)

Appendix

Energy Price Cap Operating Cost Review: Smart Metering Working Paper

EDF Alternative Simplified Model Option

Component	Sub-component	EDF Option
Smart meter asset costs	Cost of smart meter assets installed during rollout	Captured
Smart meter asset costs	Cost of prematurely replacing SMETS1	Captured
Smart meter asset costs	Benefit of avoided rental charges for prematurely replaced SMETS1 meters	Not Captured ¹
Smart meter installation costs	Installation costs of installing smart meters during rollout	Captured
Smart meter installation costs	Cost of prematurely replacing SMETS1	Captured
Smart meter installation costs	Benefit of avoided rental charges for prematurely replaced SMETS1 meters	Captured
In-home display (IHD) costs	No sub-component	Not captured but reviewed as regulation evolves
Traditional meter asset cost	Asset costs of installing traditional meters during rollout	Not captured
Traditional meter asset cost	Cost of prematurely replacing traditional meters	Not captured
Traditional meter asset cost	Benefit of avoided rental charges for prematurely replaced traditional meters	Not captured
Traditional meter asset cost	Benefit of not replacing old traditional meters with a new traditional meter	Not captured
Traditional meter installation costs	Installation costs of installing traditional meters during rollout	Not captured
Traditional meter installation costs	Cost of prematurely replacing traditional meters	Not captured
Traditional meter installation costs	Benefit of avoided rental charges for prematurely replaced traditional meters	Not captured
Traditional meter installation costs	Benefit of not replacing old traditional meters with a new traditional meter	Not captured
Non-zero operational benefits	Debt handling	Not captured

¹ Net position no benefit – PRC removes rental, but suppliers incur new rental costs on S2 new asset over extended lease period (10 vs 15 years).

Non-zero operational benefits	Customer enquiry benefits	Not captured
Non-zero operational benefits	Change of tariff benefit	Not captured
Non-zero operational benefits	Customer switching benefits	Not captured
Non-zero operational benefits	Avoided site visit	Not captured
Non-zero operational benefits	Prepayment cost to serve (PPM only)	Captured
Operating and maintenance costs	No sub-component	Captured ²
Supplier IT	No sub-component	Not captured
Legal and organisational costs	No sub-component	Not captured
Other costs	Other costs	Not captured

EDF
September 2024

² Maintenance of Smart assets is one the biggest costs for suppliers; we assume that this covers 4&5G upgrades - which we would welcome Ofgem confirming.




Price cap operating cost review - smart metering working paper

20 September 2024

Dear Danny

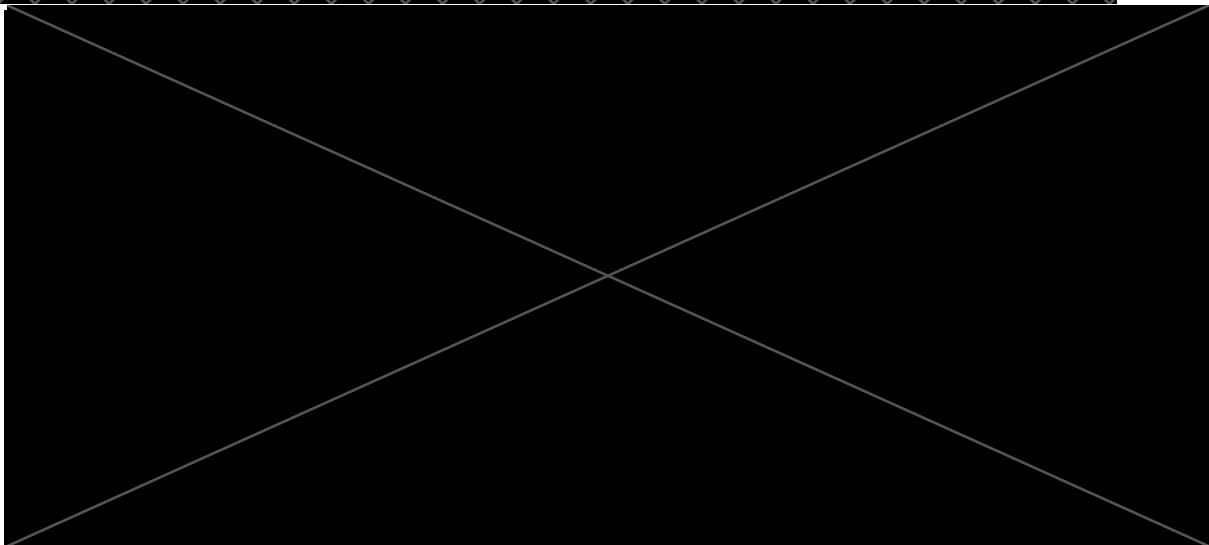
Thank you for the opportunity to respond to Ofgem's thoughts on updating the SMNCC. In general, we support moves to simplify price cap allowances. We are most comfortable with a model that looks like option 2 with some additions (PRCs for S1 and S2 meters, and 4G comms hubs). If Ofgem wanted to simplify further they could consider option 1 with these two additions. Some details below.

1. Any model must include premature replacement charges for SMETS2

None of the options currently include premature replacement charges (PRCs) for SMETS2 meters. Exchanging a faulty SMETS2 meter for a working one generally results in a larger PRC than exchanging a SMETS1 meter for SMETS2, 



The value of these PRCs also changes year on year. As working meters are so important to customers¹ - and the subject of increasing regulatory scrutiny² - we expect that this cost will flex over time and should be included in the SMNCC. At Octopus, we prioritise customer experience in our smart meter rollout which means that working smart meters can be just as important for customers as new meters on walls.

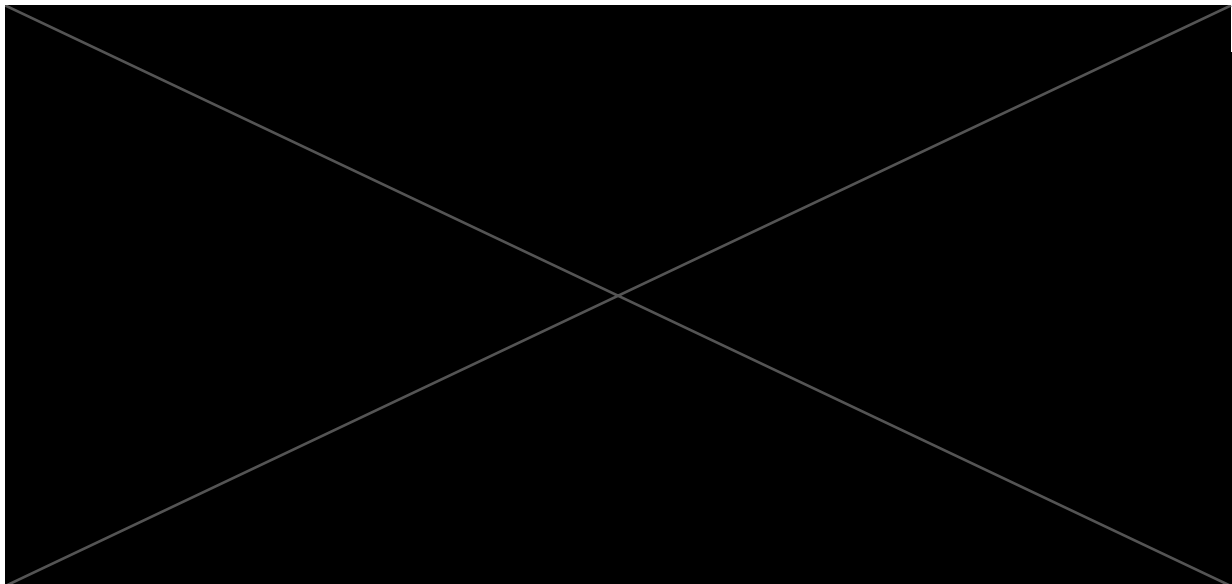


¹ For example, see recent [press attention](#) on this topic.

² See [Ofgem recent data published](#) on this topic.

2. The baseline and the model should consider costs associated with 4G comms hubs replacements

As we move in the late 2020s, replacement of comms hubs as we transition to 4G will become an increasingly big part of the rollout. See Figure 2. It is not clear whether these new costs are included in the baseline costs of the rollout. We expect that they are not because there were no costs in 2023 and the DCC is still working through how the costs will be charged to suppliers. In addition, we expect that these costs will change significantly over time. For example, the current proposal from the DCC for 2/3G comms hub scrappage costs has a material price change over time and so should be reflected in the SMNCC. It's important these costs are reflected somewhere in the price cap allowances.



3. Consider removing traditional meter costs/benefits from the model

For simplification reasons, we think Ofgem should consider removing these costs and benefits from the model. They are already not that material in the baseline.

We hope the above is helpful. Happy to discuss further.

Yours faithfully

Alexandra Meagher
Group Head of Regulation, Octopus Energy

Dr Cathy Cui
Price Protection Policy Team
Ofgem
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E14 4PU

20 September 2024

Dear Cathy

ENERGY PRICE CAP OPERATING COST REVIEW: SMART METERING WORKING PAPER

We welcome the opportunity to respond to your working paper on the smart metering aspects of the energy price cap operating cost review.

It is important that the costs of the smart meter rollout are accurately reflected in the price cap to support both fair pricing for consumers and financial viability for suppliers. We appreciate that the SMNCC review is being driven by the operating costs review, which will lead to a new baseline year.

Approach to post-2025 framework

The working paper outlines three ways that Ofgem could proceed with consideration for a post-2025 framework:

1: Delay the Smart Metering Net Cost Change (SMNCC) review until a decision on a post-2025 framework has been made

Ofgem says that this option has been discounted. However, if decisions on the post-2025 framework can be quickly made, we believe a delayed approach would be preferable, ensuring that the new simplified model is more future proof. The current framework is due to expire next year and the post-2025 framework is a key consideration for investment in smart technologies. Any new framework can be expected to interact with Ofgem's SMNCC modelling approach and risk the accuracy of the outputs. Were the Government to continue with an approach using supplier targets, for example, such delay would allow the model to be calibrated using these new targets and tolerance levels. We appreciate that the post-2025 framework is within the Government's remit, and the scope of any such consultation is still to be determined (para 3.16), but we understand that a consultation is expected to emerge imminently.

2: Progress with the SMNCC review and consider the post-2025 framework following a decision on the revised rollout framework (Ofgem's preferred approach)

Under its preferred approach, Ofgem intends to consult on the new framework in future only if there is a material change in rollout which could impact the revised model.

3: Set the SMNCC to £0 until a decision on a post-2025 framework has been made.

We agree with Ofgem's decision to discount this option because of the risk of mismatch between the interim allowance and costs for credit/prepayment meter (PPM) customers. The SMNCC would therefore not reflect the notionally efficient costs of rolling out smart meters which would not be in customers' or suppliers' interest.

Simplification options

We agree with Ofgem that a simpler model can bring enhanced transparency and a reduced regulatory burden on suppliers. Among the simplification options under consideration, we agree with Ofgem that Option 3 would be the most robust approach and would most effectively balance simplicity and accuracy. It is important for transparency that the cost of In-Home Displays and any net operational benefits for debt handling, customer enquiry, customer switching, avoided site visits and the prepayment cost to serve (for PPM only) are correctly attributed to the smart meter rollout.

We note that incumbent suppliers will face significant ongoing costs linked to customers with legacy meters that other suppliers may not face. Costs linked to RTS and legacy prepayment meters are both uncertain and unevenly distributed. To preserve the financial stability of suppliers, it is important that they can recover the associated costs in a transparent way. However, given that uncertainties persist in the smart meter rollout, meaning there is still some potential for significant cost changes, it is essential to maintain flexibility to ensure that the allowance remains aligned with the actual costs and benefits experienced by suppliers.

We support the inclusion of the advanced payment adjustment in the revised SMNCC model. This mechanism is vital to ensure that suppliers can recover the difference between the allowances set and the actual costs incurred. It provides a fair and balanced approach to cost recovery, benefiting both suppliers and customers.

ScottishPower remains committed to working collaboratively with Ofgem and other stakeholders to ensure that the energy price cap reflects the true costs of supplying energy, while protecting customers and promoting efficiency in the market.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

Price Protection Team
Ofgem

19 September 2024

RE: Energy Price Cap operating costs review: smart metering costs working paper

Good morning Price Protection Team,

I agree with your decision to continue with the review of the SMNCC allowance rather than doing nothing or setting it to £0 then completing the review after the post-2025 framework for smart meter rollout has been decided. It's important the cap is as accurate as possible and is ready for change when it comes. As the operational cost allowance is being reviewed soon, it makes sense to update the SMNCC alongside this.

With regards to the simplification options you've presented, it is difficult to make an informed choice without having figures, in pounds and pence, associated with each of the sub-components being considered. It is also difficult to give an informed view without knowing exactly what you plan to move from SMNCC into operational costs, we do not want double counting of costs or the accidental removal of any benefits for consumers.

For any consultation that you produce, I request that you include associated pounds and pence figures for the sub-components and a list of those that you predict will move into the operational costs so can be removed from SMNCC easily.

I will specifically state that you need more clarity on the cost for IHDs in this working paper. Your table of options shows that you intend to capture the costs for IHDs in the SMNCC allowance, but paragraph 4.41 states "These represent the most material individual costs and benefits, while excluding less significant costs such as premature replacement charges or IHDs **as we consider these costs will be captured in the new baseline** and would not change materially in the future." – If PRCs and IHD costs are being captured in the new baseline then they should not be captured in the SMNCC allowance, otherwise you're double counting. We need absolute clarity on what is being moved where before any real decision can be made.

For total transparency from me, I believe changes to the cap need to save consumers money on their energy bills now. Ofgem need to be focusing on your core goal of ensuring fair prices for CURRENT and future consumers... Current consumers are a part of your mandate and have taken a huge hit in recent years due to Ofgem's decisions to continuously increase costs under the guise of assisting FUTURE consumers. As the regulator of our energy markets, you've increased profits for suppliers, you've protected the large suppliers from price fluctuations, you've given them huge benefits to help manage debt, you've been more than lenient on them breaching license conditions and you're limiting competition in the supposed interest of making energy more secure, all of this has been at the cost of current consumers who are now about to see energy costs go up significantly over the next 9 months again. If you happen to make a financial decision that upsets suppliers for a change, to the benefit of consumers, this would be a welcome respite for rest of the country.

Therefore, I believe that option 1 may be the best solution, if these are the main costs that absolutely need to be captured then the rest of the minor costs should be considered covered by the exorbitant headroom allowance.

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YouTube: www.youtube.com/channel/UCoNLeohKJoBhWECcUUifCWw



Regulating our Regulators

Final points, I agree with the proposal to continue using the current rollout methodology. I agree that an annual review is probably best for the SMNCC allowance, so long as it can be done quickly and efficiently.

Kind regards,

Richard Winstone
The Regulator Guy

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