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Dear David,

Formal Consultation on the Energy Market Investigation (Gas Settlement) Order 2016

EDF Energy welcomes the opportunity to respond to the CMA's formal consultation on the draft Energy Market Investigation (Gas Settlement) Order 2016.

We continue to support the CMA's overall policy intent, but believe this can be met by the submission of monthly reads, as set out in the final report. We are very concerned at a mismatch between the remedies outlined within the final report and the draft Order. The final report stated that readings should be submitted once a month for non-daily metered supply points with a smart meter. The proposed Supply Licence Conditions have been drafted to require suppliers to 'take all reasonable steps to...obtain reads daily'. This requirement goes beyond the remedies set out in the final report and is not required to achieve the desired policy outcomes.

As stated in our response to the initial consultation and as acknowledged by the CMA in our meeting on 1 November, the requirement to obtain daily readings for smart meters is not referred to in any of the previous CMA reports. Therefore, this remedy as currently drafted goes beyond the remit and requirement as set out on the Final Report. We are extremely concerned that the drafting of the Order, and the move to requiring daily readings, has been based on discussions between the CMA and Ofgem after the publication of the Final Report.

Our primary concern is the apparent misconception regarding the ease and speed at which suppliers will be able to adopt the 'daily reads' requirements set out in the draft Order. To allow the submission of batched daily readings, suppliers will be forced to migrate customers with smart meters on to Product 3, as defined under Uniform Network Code. Currently, the use of Product 3 is not mandated in any of the Nexus design documents or under any Industry Code requirement. At present, the decision regarding which Product to use can be made by suppliers based on what is best for their business and their customers.

Given the absence of any Industry or Nexus requirement, and the omission of the need to use daily data from the CMA reports, we believe some suppliers legitimately took the decision to initially only incorporate the use of Product 4 into their Nexus system design.

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Consequently, it is our understanding, based on discussions with industry, that a minimal amount of testing of Product 3 has taken place.

Any change which requires the submission of daily data under Product 3 would involve significant system change for EDF Energy. Following the initial consultation, we undertook an internal review of the Draft Order in order to scope, in principal, the changes that would be required to comply with the daily reads aspect of the Order. Based on our existing system configuration, we have assessed the level of investment required to upscale our system infrastructure to have the necessary storage and processing capabilities. We have also considered the changes needed to our system functionality and process design to allow valid readings to be uploaded for settlement purposes without always giving rise to customer billing or reassessment of their Direct Debit.

We are also concerned by the impact that the Order is likely to have on Xoserve. We anticipate that Xoserve and the industry will be under significant pressure following the go-live of Nexus. In our recent meeting Ofgem acknowledged that they have received no assurances from Xoserve regarding their ability to handle the additional volume of readings. Since the publication of the Draft Order, it is our understanding, based on discussions at various industry meetings, Xoserve have voiced concerns regarding the proposed change and the impact that a vast increase in volume will have on their system architecture and whether their processes are fit for purpose if all customers are providing daily readings. We recommend that the CMA engage with Xoserve to fully understand their concerns as well as seeking Xoserve's view, as the central system provider, on the true overall benefit of moving all customers to Product 3.

Given the dramatic increase in volume, and mindful of the recent history of concerns with their role in the delivery of Nexus, we believe it is vital that Xoserve demonstrate that they have the system capacity and stability needed as well as the necessary resource to efficiently manage the associated exceptions, before adding additional volume. We are very mindful of the significant level of change already happening within the industry and feel it is imperative that delivery of such change, such as the Nexus project, is not jeopardised by adding additional prescriptive requirements at this late stage.

EDF Energy believes that moving the gas industry to a daily read position represents a significant step change and, as set out above, would come at substantial cost to suppliers and other industry parties. With this in mind, we are surprised and concerned by the lack of a robust Impact Assessment which considers holistically the need to mandate the use of Product 3, and whether now is an appropriate time to do this. In fact, the results of the Engage Consulting review into the risks to Gas Settlement, jointly commissioned by Ofgem, classifies the submission of readings under Product 4 as a 'Less Significant Risk', going on to quantify the overall benefit to industry as £1.35million p.a. Considering the potential cost, set out above, to EDF Energy, in addition to the anticipated significant costs of other market participants, we would urge the CMA to consider whether the cost is justified when measured against the positive impact it may deliver. Furthermore, we are concerned that these costs will ultimately be borne by the consumers and is likely to divert resources away from other customer benefiting changes, such as Faster Switching.

We do not believe it is right or appropriate to include the requirement to collect daily readings as part of the Gas Settlement Order. We would recommend the commencement of a programme of work, led by Ofgem, which fully considers whether mandating the submission of daily readings is required. We welcome the opportunity to take part in such a programme, which fully examines the impact, costs and benefits of daily readings to Gas Settlement and the most appropriate mechanism for managing this, we could include use of a central system and provider. A programme could consider whether use of a specific Product Class should be mandated, or remain a commercial decision of suppliers, as part of a robust impact assessment.

Please note that the content of this response may be published.

Yours sincerely,

Paul Delamare
Head of Customers Policy and Regulation