Invitation to Comment: Energy Prepayment Review
Competition and Markets Authority
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Invitation to Comment on a proposed review of the Energy Market Investigation (Prepayment Charges Restriction) Order 2016

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

Yes, there is need to review the 2016 Order as there have been significant developments which have had material effects on market conditions since the Order was made. The scope of the review needs to take into account:

- Differences between the Prepayment Charge Restriction (PPM cap) and Regulation of charges for Domestic Customers supplied under certain Domestic Supply Contracts (default cap) levels will act as a disincentive for legacy prepayment customers to adopt smart meters.
- Smart meter roll out progress has been slower than considered at the time of the Order.
- Changes in costs since the PPM cap was introduced, and market distortions from the introduction of default tariff cap.

We believe this is a justified priority for CMA to assign resources, and aligns with the CMA's strategic priorities.

The CMA review provides the opportunity to prevent differentials between prepayment and default price caps from having an adverse effect on the rollout of smart meters. Under the current caps, a customer is likely to be subject to higher charges following the installation of a SMETS2 meter operating in prepayment mode. This will act as a major deterrent for the take up of SMETS2 meters for legacy prepayment meter customers.

Our recommendation is that any changes should align the unit rate and standing charge of the PPM cap level with the default cap, or ensure both are higher for the PPM cap than for SMETS2 customers operating in prepayment mode. This will remove differences and financial disincentives from moving from a legacy prepayment meter tariff under one set of capped charges, to the default tariff cap, under different capped charges. It aligns with the CMA's view at the time of making the 2016 Order that there is "higher actual and

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perceived barriers to switching for prepayment customers arising, in particular, from […] the need to change meter to switch to a wider range of tariffs."[1]

However, although changes are necessary, we do not see the need for changes which require onerous analysis and disproportionate CMA resource. It would be straightforward for the CMA to determine and set charges by utilising Ofgem's analysis which supports the default tariff cap level. This is a more accurate assessment of the costs than are reflected in the prepayment cap and benefits from the learnings since in terms of how costs have out turned compared to forecasts from 2016. Using Ofgem policy cost assumptions will help to achieve charges that are reflective of costs.

CMA strategic priorities

We acknowledge that the CMA is required to make appropriate decisions on which programmes of work to undertake in order to ensure that it makes the best use of its limited resources. In order to determine whether a programme of work is a strategic priority, we note the CMA assesses potential work against a published set of prioritisation principles that consider such matters as impact, strategic significance and risks etc.

The CMA has noted that prepayment meters are often used by vulnerable customers. It is therefore important that the CMA continues to focus on this area. This will ensure that these customers continue to be protected in an effective and proportionate manner, including facilitating their ability to actively participate in the market in order to gain from the benefits of competition. We have set out above concerns as to how the roll-out of smart meters to such customers will be detrimentally impacted due to the lower price as compared to the Default Price Cap. We believe that without any change to the current Order there will be a detrimental impact on consumer welfare as a consequence of customers losing out on the benefits of smart metering (i.e. through improved range and quality of service etc.). Removing this disincentive to take up a smart meter will lead to additional wider economic benefits. The successful introduction of smart metering is a cornerstone for many future Government and Ofgem strategies that have a focus on a data rich energy system that promotes future innovation, energy efficiency initiatives and additional consumer benefits. We believe the removal of any detrimental impacts to the smart metering roll-out by the CMA will aid the development and delivery of future beneficial energy market developments.

Given the above, EDF Energy strongly recommends that the proposed review of the Energy Market Investigation (Prepayment Charges restriction) Order 2016 fits within the CMA's prioritisation principles and should therefore proceed at the earliest opportunity.

[1] https://assets.publishing.service.gov.uk/media/5849486eed915d0b12000063/energy-market-notice-price-cap-order.pdf

Smart meter roll out

It is important that the prepayment price cap does not impact the smart meter rollout.

Full SMETS2 prepayment functionality nationwide for all suppliers is expected to be operating before the end of H1 2019. This will support hundreds of thousands of customers who want to retain prepayment functionality also being able to benefit from a smart meter. Arguably, prepayment customers have even more to gain from smart metering than credit customers, for example ease of topping up credit and not having to regularly access the meter. Our Ofgem rollout plans for 2019 have a key assumption needed to hit our regulated targets; that once the SMETS2 prepayment infrastructure is stable we will not have any hindrance to providing prepayment customers with a positive proposition to upgrade to smart. The PPM cap risks this assumption and so customers' ability to benefit from smart meters.

Increases in DCC and policy costs

Data Communications Company and policy costs are now at materially higher levels than were anticipated at the time the PPM cap was set. Ofgem's more recent and detailed work on costs for the default tariff cap and be utilised to ensure that these elements of the PPM cap are more accurate.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact myself or Kevin Hammond on 07875 113 467.

This response may be published on the CMA website..

Yours sincerely,

Head of Customers Policy and Regulation