Margaret Coaster
Smart Metering Team
Ofgem E-Serve
9 Millbank
London
SW1P 3GE

28 October 2010

Dear Margaret,

Smart Metering Implementation Programme Prospectus: responses to questions due 28 October 2010

EDF Energy supports the Government's commitment to delivering Britain's low carbon future.

We believe a range of solutions must be pursued. Our commitment to decarbonising Britain's generation fleet through substantial new nuclear investment is well known. We also recognise the critical importance of engaging the consumer in managing their energy use and associated carbon emissions. Smart Metering will play a vital role in delivering this objective. Smart Metering will bring with it a paradigm shift in our industry, empowering the consumer, and providing the foundations for full end-to-end management of the energy infrastructure.

EDF Energy is fully committed to supporting DECC/Ofgem in planning and delivering the British Smart Metering programme. We are passionate about ensuring its success.

In our response to the questions due on 28 September, we set out the four fundamental principles we believe to be critical to success:

1. Placing a strong emphasis on health and safety;
2. Minimising the cost to the consumer;
3. Reducing risk through robust governance, effective planning and thorough testing;
4. Delivering an optimal and enduring solution for the consumer and industry participants.

We remain convinced that the ultimate success of this ambitious programme depends critically on the incorporation of these principles, in a manner that ensures energy suppliers can deliver a financially viable outcome.

EDF Energy has some clear recommendations with regard to the aspects of the programme where responses have been requested by 28 October.

Project governance

As we indicated in our September response, EDF Energy recommends that a properly orchestrated and sponsored project is established utilising formal project methodology, with clear definition of roles and responsibilities, resource planning, detailed project plan, budget, and standard project documentation, e.g. a full Project Initiation Document (PID).

EDF Energy is concerned that the significant risks associated with the successful delivery of this project are not being fully recognised and that an appropriate risk management strategy is not yet being implemented. To date, there has been no comparable roll-out of this size into a

competitive market. In countries where roll-outs have occurred, there have been considerable issues and a substantial number of programmes have failed to meet their original objectives.

To address and mitigate these substantial risks, the Smart Metering Programme must be underpinned by best practice project and risk management techniques, including appropriate assurance and independent audit.

Timing

As we indicated in our September response, EDF Energy strongly advises against the creation of a non-strategic interim solution which would divert effort and focus away from delivering an optimum long-term outcome. It is essential that any interim arrangements should form part of the overall delivery plan for the DCC and associated industry changes, and be implemented only if the plan can incorporate them as logical deliverables.

Our preference would be to accelerate the delivery of the DCC and enduring industry systems in order to avoid the need for interim arrangements, while still supporting the early delivery of benefits to the consumer. However, is clear from the current debate on 'Interim Interoperability' arrangements that it is a highly controversial area, and that reaching agreement may prove challenging. We are fully engaged in this dialogue, and have made a substantial contribution to the ongoing discussions.

We are pleased that the Prospectus confirmed that 'early movers shall do so at their own risk'. EDF Energy expects this intention to be reflected in the mandate with a requirement that all non-compliant Smart Meters be replaced with compliant systems as soon as practicable within the roll-out period. Failure to act on this basis would leave a residual volume of non-compliant meters in circulation which would undermine the achievement of the programmes goals, disadvantage consumers, and potentially interfere with competition.

While they persist, we would expect a supplier to be able to treat, without any regulatory of commercial disadvantage, any non-compliant Smart Meters as if they were part of the current non-smart metering stock (e.g. in terms of business processes).

Rollout strategy

EDF Energy continues to firmly believe that the roll-out of Smart Meters must be carefully coordinated by suppliers and Ofgem in order to avoid the risk of major programme failure. As we indicated in our September response, the roll-out should include a pilot phase where industry participants, consumers, suppliers, and the regulator can build confidence that the roll-out will be successful. This should be followed by a period of controlled market start-up where volumes are constrained and key stakeholders can share lessons learned while systems, processes, security, and the supply chain are tested at increasing scale.

Failure to manage the opening of the market will result in a 'free-for-all' which may damage consumer confidence and result in high profile and costly failures.

EDF Energy's response to the consultation questions also encompasses a number of important interconnected themes:

1. Experience from other countries illustrates that successful consumer engagement requires that security and privacy issues remain paramount to the overall programme. The same

security and privacy criteria should apply to both the interim and the enduring arrangements. Successful consumer engagement also relies on offering attractive and innovative customer propositions, utilising In Home Devices (IHDs) and other interfaces in order to deliver the substantial energy savings that are projected in the impact assessment.

2. Technical and commercial interoperability are central to the success and economic viability of the overall programme. In particular, robust regulatory and governance arrangements must deliver the right incentives and safeguards for industry participants. These arrangements need to apply to interim and enduring solutions imposed as a result of staged implementation. Any regulatory framework applied must allow companies to recover 'reasonable costs', in undertaking this substantial investment. It is also essential that the cost recovery arrangements are fully understood and agreed well in advance of the creation of the relevant legal obligations to deliver smart metering.
3. To ensure success of the programme, EDF Energy has referred to the need for a 'design authority' throughout our response. We believe that the discipline and governance that a design authority would provide are essential for maintaining design principles, specifications and robust design change control and should be established now.

In summary, EDF Energy fully supports the introduction of Smart Metering into the British market. However, success will only be achieved if the programme is built on a best practice approach to programme management. A failure to get the basics right, for example through rushed decision making, would not only increase costs and jeopardise funding, but also lead to a poor consumer experience.

Our detailed responses are set out in the attachment to this letter. Both this letter, and the attachment, are not confidential and can be published on Ofgem's website.

EDF Energy would welcome a meeting with Ofgem to discuss these concerns and consider how our proposals can assist in the successful deployment of Smart Metering for the benefit of all.

Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague [redacted] or myself.

Yours sincerely,

[redacted]