

Tabish Khan  
Smarter Markets  
Ofgem  
9 Millbank  
London SW1P 3GE

3 February 2012

Dear Tabish,

### **Supporting effective switching for domestic customers with smart meters**

EDF Energy supports measures designed to protect consumers during the Foundation Stage of the roll-out, where Advanced Domestic Meters (“ADM’s”) are deployed in advance of the mandated mass roll-out of DCC compliant smart metering.

EDF Energy has strong concerns about the proposed implementation (and hence commencement) date of the new licence conditions (by 30 June 2012) which we regard as unachievable. In particular, EDF Energy believes that a robust implementation date cannot be developed without a thorough assessment of the impact of Ofgem’s proposals on current industry governance and processes, the time it will take to amend them and deliver the relevant changes to both participant and industry systems.

As the implementation date is not specified in the proposed licence conditions, we are not formally objecting to their implementation. However, our strong concerns with Ofgem’s proposed implementation date (and our proposed licence drafting amendments), must be taken by Ofgem as formal representations made in respect of the relevant notices of proposed modification of the standard conditions of the electricity supply licence under section 11a(2) of the Electricity Act 1989 and the gas supply licence under section 23(2) of the Gas Act 1986.

We also have significant concerns that the large scale installation of non-compliant (i.e. non-DCC) - compliant and non-interoperable ADMs will have significant and detrimental impacts on consumers not addressed by Ofgem’s current proposals. Indeed, we are concerned that Ofgem’s current proposals will encourage the installation of such meters, and from this perspective are not in consumers’ interests. The use of non-compliant/non-interoperable meters will create barriers to switching, and unnecessary additional costs to customers.

Our concerns are explained in greater detail in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague Ashley Pocock on 07875 112854, or myself. I can confirm that this letter may be published on Ofgem’s website.

Yours sincerely,



**Paul Delamare**  
**Head of Downstream Policy and Regulation**

## Attachment

### Supporting effective switching for domestic customers with smart meters

#### EDF Energy's response

EDF Energy places the customer at the heart of its business and culture. We are committed to delivering the highest levels of customer service and this ethos is very firmly at the centre of EDF Energy's smart metering programme. EDF Energy believes that the Foundation Stage of the roll-out provides an opportunity for the energy industry and its stakeholders to test and prove smart technology in the field, as part of an orchestrated programme to deliver the enduring arrangements. Therefore, it is imperative that the volumes of meters installed are properly controlled across the industry until all parties have confidence that the systems, processes, customer engagement and technology are operating as designed and can be relied upon to deliver the identified advantages to the customer.

Consistent with this, EDF Energy is installing a limited number of 'smart' meters for domestic customers until such time as the full technical specifications, including Home Area Network (HAN) and Security requirements, are agreed and properly ratified by the EU and there is an appropriate number of reliable meters, in a competitive metering market, that conform to these specifications. Our target for 2012 is to install between 10,000 and 20,000 smart meters for various trials to reflect this approach.

#### Representations

##### 1. Time to Implement

EDF Energy believes that the time to implement these proposed obligations is unrealistic and we detail below our reasons for this:

- **Lead time** - The lead time for system, process and literature change is insufficient. As a supplier that is not intending to roll-out smart meters in large volumes, until such time as the full smart meter specification is finalised by the European Commission it was our original understanding that all obligations would only apply when the specified volume thresholds had been exceeded. However, the clarification (page 19 point 2.58 of the decision paper) now makes it clear that the obligations relating to information will commence from day 1 (by 30 June 2012). EDF Energy believes that a thorough assessment is required to understand the impact on current industry governance and processes, together with the time it will take to amend them, for suppliers to identify that the meter at the customer's premise is an ADM. From previous experience we do not believe this could be established by simply asking the customer, as part of any sales/acquisition process. The following industry changes are an example of the type of changes that would be required:
  - **'Installing supplier'** - Under the current industry frameworks there is no mechanism for a new supplier, following the ADM installation and after the initial Change of Supply (CoS), to identify the installing supplier. Installing supplier is not a recognised data item, nor a current Industry market role (as explained in our Commercial Interoperability consultation response dated 14 October 2011). If a new industry market role of 'installing supplier' is required

then the implementation of this is likely in our opinion to take a minimum of one year, and possibly eighteen months.

- o **Smart meter type** - The current Data Transfer Catalogue (Electricity) and Supply Point Administration Agreement – SPAA (Gas) does not inform suppliers if a smart meter (ADM) is installed, as early smart meters (ADMs) are not recognised as a 'meter type'. Within Ofgem's final decision and statutory consultation paper (see section 2.8) it states that:

*'a change to centralised registration databases (ECOES and SCOGES) may be an effective way to enable suppliers to identify whether a customer has an ADM installed.'* and that *'we encourage the industry to make the necessary changes to enable better identification through these centralised systems.'*

This will require an industry change to be formally raised and managed through the Master Registration Agreement (MRA) for electricity and SPAA for gas governance. From our experience of similar changes, it will take approximately six months to implement this change through industry governance. Industry will then require time to implement changes to their systems to ensure that the correct level of logic is built, in order for our systems and processes to know what to do when they send or receive this new meter type(s).

Hence until this new 'market role' and 'meter type(s)' are accepted and agreed as valid data items within their respective governance frameworks, the above central system providers cannot start to develop and amend their systems to store this data and inform suppliers. In addition should a new market role of 'installing supplier' and a new meter type of 'Smart Meter' or 'ADM' be introduced, there will be an issue as to how these data items are retrospectively updated to all ADM's that have been installed to date, in order to comply with these obligations.

- **External parties** - We also have a concern that all sales channels e.g. internet switching sites, will need to have the ability to implement these 'information' obligations, to ascertain if an ADM is installed and what services exist, in the same timescales that are being proposed. Further work with these organisations is required to determine this. However, from previous experience we do not believe this could be established by simply asking the customer, as part of any sales/acquisition process.

## 2. Proposed Licence Conditions

We make the following representations regarding the drafting of the proposed licence conditions:

- 25B.1 (a) – Should read "any Domestic Supply Contract entered into between the licensee...." as opposed to the current drafting which states "the Domestic Supply Contract previously entered into...." The current wording relates to a single contract previously entered into – it is not clear that this actually means the last contract entered into. The revised wording would ensure that all previous charging information irrespective of what contract it relates to is not displayed.
- 25B.1 (a) - Ability to disable information relating to charges – From tests we have carried out on the early smart meters that we have installed, for certain gas smart

meters we have been unable to reset the tariff information to zero. They require a positive value to be entered and hence a setting of £0.0001 is the lowest price we can set it to.

- 25B.2 (c) – how will a supplier know what might be to the disadvantage of the customer? Furthermore, all of 25B.2 does not cater for a scenario whereby the customer has switched already away from the installing supplier and is now switching again. The incoming supplier might be able to obtain information from the installation supplier about functionality and services the ADM is capable of, but how will it know what services the previous supplier provided in order to communicate to the customer what services may be lost compared to that which it currently receives and not what it previously received from the installing supplier.
- 25B.4 – EDF Energy believes that this obligation should extend to the installing supplier advising the customer that future site visits may be required, as the ADM may need to be replaced, if it fails to meet the requirements of DCC or the incoming supplier is unable to support the services provided, especially when in prepayment mode.
- 25B.12 – For clarity, the words “the licensee must install or arrange...” should be moved to the beginning of the paragraph and the remainder of the paragraph then follows on.

## **Wider consumer concerns**

EDF Energy believes that the use of non-compliant/non-interoperable meters will have a number of adverse consequences for consumers not addressed in Ofgem’s current proposals:

### **1. Barrier to switching**

EDF Energy believes that these obligations could create an artificial barrier to competition, in that consumers may be discouraged from switching if some services are not maintained. Ofgem’s Impact Assessment assumes 91% of customers will switch to a supplier that may have to revert and operate early smart meters (ADM) in dumb mode. Indeed section 1.31 of your decision paper recognises that many suppliers have informed you that customers are less likely to switch if they have an ADM installed.

### **2. Cost to the Customer**

There are a number of cost factors that need to be considered, which will ultimately impact the customer. These are:

- In order for suppliers to take up the services of the installing supplier, the new supplier will have to develop, build and test numerous interfaces to other supplier services, as there is not a standardised format for the transfer of information.
- Suppliers are reluctant to pay a smart meter rental charge for an ADM that is non-compliant and non-interoperable with the final specification, even if it is used in smart mode. Asset owners (financiers) are likely to require a return on their

investment and hence insist on a smart rental. These additional costs will eventually be borne by the customer.

- In February 2011, Ofgem's Spring Package consulted on whether there should be a requirement for terms for any service to be reasonable, non-discriminatory and transparent. However, the Commercial Interoperability consultation (18 August 2011) did not consult again on these matters. EDF Energy believes that services offered by the installing supplier should be on cost reflective terms, to prevent against excessive pricing. Hence installing suppliers should be obliged to ensure that all Terms and Conditions are fully transferable to any incoming new supplier. If this is not the case, then new suppliers and ultimately the customer will be exposed to additional costs.
- Ofgem's Impact Assessment to the current consultation only provides statistics for customers impacted by these obligations until 2014. However, in the past month, suppliers have received two open letters from the Minister concerning the possible exemption of small and large suppliers from the roll-out obligation, in order to protect the asset life of ADMs. If these exemptions are enacted, then support for operation and maintenance of ADMs will be required far beyond 2019 – potentially to 2026 or beyond. This, along with the DECC published delay in the DCC start date, may result in greater volumes of ADM's being installed outside of the DCC framework. This will result in higher costs being incurred to operate parallel processes and systems until a compliant smart meter is installed and adopted by the DCC.

### 3. Incentives to roll-out non-compliant and non-interoperable ADMs

In the original DECC Prospectus response, DECC stated that suppliers who rolled out smart meters ahead of the DCC go-live did so at their own commercial risk. However, with the potential exemptions for small and large suppliers, mentioned with reference to the open letters above, together with these new obligations, EDF Energy believes suppliers would be encouraged to roll-out non-compliant and non-interoperable early smart meters en masse. Any such change would provide a material competitive advantage to those suppliers who have decided to roll-out large volumes of early smart meters before the beginning of the mass roll-out, and would hence significantly distort the competitive market.

EDF Energy still believes in a controlled market start up, with a limited number of early smart meters to test and trial solutions, leading up towards the enduring mandated smart meter roll-out with the DCC.

### 4. Other points of material impact

We also have some other points, that in our opinion will have a material impact on the intention of these new licence conditions:

- **Bad Customer Experience** – ADM's installed then operated in dumb mode on CoS, could cause customer dissatisfaction, leading to eventual refusal of access to install a compliant smart meter and potentially acts as a barrier to switching as mentioned above. This could impact the overall success of the enduring

mandated roll-out phase. On 30 November 2011 all suppliers received a letter from Charles Hendry, the energy Minister, expressing concerns about the experience customer's are having today when they change supplier, having had a smart meter (ADM) installed. Issues such as estimated bills, inaccurate billing are the main areas of concern.

EDF Energy believes that an uncontrolled roll-out of non-interoperable ADMs ahead of DCC go-live will increase this level of customer dissatisfaction and such problems as mentioned by the Minister will become increasingly prevalent. This could have a significant impact on the mass roll-out programme and consequently increase installation costs, due to further site visits being required to install compliant smart metering, reducing the value to the GB PLC business case. This situation has been exacerbated with the DCC go-live date being put back by six months in the current DECC plan issued on 21<sup>st</sup> December 2011.

- **Confidentiality and Privacy of customers data** – There is a fundamental need to be confident that large suppliers who deploy interim solutions within their own system architecture have implemented the appropriate separation functions 'Chinese Walls' that prevent their own staff from viewing potentially confidential customer data e.g. tariff structures and pricing passing through their systems to smart meters being utilised by new suppliers. Ofgem and Suppliers must require assurances that appropriate confidentiality and privacy measures have been put in place by all large suppliers, in accordance with the DPA and supported by PIA's (Privacy Impact Assessments). EDF Energy would look to Ofgem to put in place an obligation requiring compliance with this requirement, supported by a mechanism to formally audit everyone to ensure compliance. This will give customers and suppliers confidence that data will not be compromised.
- **Security** - (hacking & cyber attack) concerns in supplier systems and smart metering equipment offering ADM services, due to undefined requirements e.g. ISO 27001 which will not be defined, agreed and approved until the final EU submission, for which approval is expected at the end of 2012. Meter manufacturers will then require time in order to develop, build and manufacture smart meters in volume to these approved specifications, along with Supplier and participant systems, processes and people. EDF Energy believes that failure of Security and Privacy even in small volumes of meters rolled-out, could have a disproportionate effect on the success of mass roll-out, as has been demonstrated in international smart metering programmes.
- **Uncertainty of asset rental** – DECC in their Prospectus response (March 2011) stated that there will be a milestone in their plan (currently beginning of Q4 2013 in their latest plan) that 'Smart Change of Supply Arrangements become Standard'. This means that from this point forward the new supplier would pay a smart meter rental irrespective of how the new supplier uses the ADM i.e. in smart or dumb mode. DECC stated that obligations would be put in place for this to occur, but Ofgem have concluded that due to the uncertainty of meter specifications it was difficult to regulate the asset cost. However, ADM asset owners will want smart rental irrespective of use and suppliers will only want to pay dumb rental when the ADM asset is used in dumb mode. This could lead to

potential ADM asset rental disputes between asset provider and suppliers and we believe this may not be resolved through commercial incentives as suggested in the Commercial Interoperability consultation dated 18 August 2011. This will result in further uncertainty for securing asset financing as stranding could ensue and any ADM is at risk of premature replacement to meet the needs of the customer and incoming supplier as well as to become compliant and adoptable with DCC.

- **Level of Services** - The current Ofgem definition of ADM does not cover all potential services the installing or new suppliers may wish to offer. Indeed, some installing suppliers may not use the full functionality of an ADM, making it difficult for subsequent suppliers to identify what functionality exists on the ADM. Also, the new supplier may want to offer additional services above the existing ADM capability, which could lead to smart meter asset replacement, resulting in stranding of the existing ADM asset and potential termination charging issues.
- **Appropriate record** - Another aspect introduced by the consultation decision paper and not previously included within the original consultation discussed with industry, is the proposed obligation that suppliers (and any supplier representative) must take and retain an appropriate record of its compliance to ascertaining whether an ADM is installed and what functionality it has, plus inform the customer of any service variation should they change supplier. This will potentially require a much greater level of system change, cost and delay to accommodate this obligation.
- **Agent appointment** - The new Supplier may be forced to appoint the existing MAM/MOP as only they can maintain a particular ADM, thereby potentially being locked into uncompetitive MAM/MOP solutions. This could restrict choice and stifle competition in metering, as well as potentially introducing higher costs by the alternative provider, compared to the supplier's preferred provider.

**EDF Energy**  
**February 2012**