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23 October 2015

Smart prepayment for a smarter market: our proposals

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, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

Smart meters have the ability to fundamentally transform the experience of prepayment users. In particular, there are significant benefits that smart meters will bring to prepayment customers, such as the ability to be able to remotely switch a meter into prepayment mode without conducting a site visit and by enabling remote and auto top-up of credit. We are therefore fully committed to developing the most appropriate prepayment regulatory framework for smart meters and have been working with Government and Ofgem to ensure that the customer experience of smart prepayment is a positive one.

EDF Energy fully supports the industry proposal for the losing supplier to switch a smart prepayment meter to credit mode at change of supplier. This is the only fail safe way of ensuring that the customer maintains supply, ahead of the enduring arrangements provided by DCC and SMETS2 meters. Due to the customer implications, Ofgem must mandate the losing supplier to switch a smart prepayment meter to credit mode shortly before the loss date. We believe this can be best achieved by making the necessary modifications to both the MRA and SPAA Codes, with suitable enforcement action if suppliers are seen to be systematically not following these obligations. We believe that the modifications must ensure the losing supplier takes all reasonable steps to ensure that the meter has successfully switched payment mode prior to the change of supplier event.

EDF Energy agrees with Ofgem's assessment that the existing regulatory provisions are fit-for-purpose for the current arrangements, but believe they should be reviewed at a point in the future when the majority of the market is supported by smart meters. We welcome the proposal to update the 'Safe & Reasonably Practicable' guidance to reflect smart prepayment arrangements; however, we believe further work is required to ensure that these remain appropriate for smart meters. We would therefore urge Ofgem to consider forming a working group to consider how best to develop these arrangements on a holistic basis. We strongly believe that it will be necessary for industry to work together

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on phasing out traditional prepayment infrastructure, and for there to be a central body to ensure that a collectively agreed solution is put in place where issues are identified.

We further believe that communication with customers will be essential. Organisations such as Smart Energy GB, Citizens Advice and other consumer groups will play a vital role in ensuring there are consistent messages throughout the process.

Our detailed responses are set out 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 Ashley Pocock on 07875 112854, or myself.

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

Yours sincerely,

A handwritten signature in blue ink that reads 'Paul Delamare'.

Paul Delamare
Head of Downstream Policy and Regulation

Attachment

Smart prepayment for a smarter market: our proposals

EDF Energy's response to your questions

Chapter: Two

Q1. Do you agree with our assessment of the Change of Supplier solution as developed by industry, including in terms of its potential unintended consequences and its applicability to all smart meters irrespective of consumer type (domestic and non-domestic)? If not, please:

- **explain why**
- **put forward suggested alternative(s) to this solution**
- **if relevant, suggest and explain any other action we should take**

We fully support the industry proposal for the losing supplier to switch a smart prepayment meter to credit mode at change of supplier. We believe this is the only fail safe way of ensuring that the customer maintains supply upon change of supplier.

We already have experience of gaining prepayment customers with a smart meter where the previous supplier has left the meter operating in prepayment mode. We normally only become aware of this when the customer contacts us to let us know they are either off supply or about to lose their supply. In such instances, we have no alternative but to arrange an emergency meter replacement which results in a poor customer experience and involves significant avoidable costs.

To avoid this undesired outcome, the losing supplier should be mandated to switch a smart prepayment meter to credit mode shortly before the loss date. This obligation can best be implemented through appropriate modifications to both the MRA and SPAA Codes before large numbers of smart meters are operating in prepayment mode. We believe that the modifications must ensure the losing supplier is required to take all reasonable steps to ensure that the meter has successfully switched payment mode prior to the change of supplier event. Furthermore, robust incentive or enforcement arrangements should be in place to address any supplier systematically ignoring such obligations.

We believe the consumer should see no impact as a result of the process as the meter will switch modes around midnight on the Supply Start Date. The instances where this process fails should be limited, but where the gaining supplier is unable to communicate with the meter the customer will accrue a level of debt whilst the meter remains in credit mode.

We are supportive of an industry agreed solution to the 'no WAN' issue as this is needed to ensure customers maintain supply. We believe that this issue needs to be resolved in a manner that removes the need for a misdirected payments process and we will continue to work with industry in this regard.

We are concerned that Ofgem's consultation appears to suggest that suppliers may wish to 'write off' any consumption that is incurred when the meter is in credit mode before the gaining supplier applies their configuration to the meter. We do not believe this is appropriate, necessary or fair, as these costs would have to be recovered from all customers. Part of the change of supplier process is for the gaining supplier to take the

transfer reading (as part of their configuration of the meter) and it is the losing supplier that will be responsible for the energy consumed between the point they set the meter into credit mode and the point the new supplier configures the meter.

EDF Energy believes a way to mitigate this risk would be for Ofgem to take steps to ensure that the gaining supplier must take all reasonable steps to set the meter to their configuration/mode as soon as possible after the change of supplier event has taken place. We note that this is not a specific obligation currently in the supply licence or in the Smart Energy Code.

Q2. Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting? If not, please:

- **explain why**
- **suggest and explain any alternative(s)**

EDF Energy supports Ofgem's proposal to monitor suppliers' offerings of important smart prepayment functionalities through the Social Obligation Reporting. It is sensible to utilise this existing reporting framework rather than create something new.

Q3. Do you agree with our proposed data points for inclusion in the SOR (on the availability of key smart prepayment functionalities), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- **explain why**
 - **suggest and explain any alternative(s)**
- (Also see appendix 3 for detail on proposed changes)**

We support Ofgem's proposed approach to data collection and the reporting frequency.

Whilst we agree with the questions Ofgem is proposing to include in supplier reporting requirements, we believe there should be additional clarity provided in terms of whether all of the questions asked are solely for smart prepayment or both legacy and smart prepayment. Furthermore, it is not clear from the consultation how Ofgem intends to use this information.

As regards to when suppliers should start to report to Ofgem, we are mindful that not all suppliers will be installing smart prepayment meters during 2016.

Q4. Do you agree with our assessment on those areas where we do not propose to take any further action. If not, please:

- **explain why**
- **suggest and explain any action we should take**

We agree with Ofgem's assessment and agree that no additional action is needed in any of the areas set out.

Recording meter location – we agree that the cost of capturing, recoding and sharing this data is disproportionate to any benefit gained.

No WAN and no access – while we agree with Ofgem that no additional action is needed in this area (and it is in the supplier’s own interests to ensure the customer remains on supply), a working Home Area Network is not necessary for the customer to input a Unique Transaction Reference Number, as this can be done directly on the meter interface. Where communications are likely to be inoperable for a prolonged period, suppliers have existing obligations to ensure that the meter continues to be safe and reasonably practicable to remain in PAYG mode. We will have the capability to deal with this type of event quickly, treating such instances as an ‘Off Supply’ occurrence that would be covered by the existing ‘Guaranteed Standards of Service’ obligations.

Suppliers will be wholly reliant on the Data Communications Company providing the necessary communications. As such, we believe Ofgem should be considering the implications of DCC failure and no WAN, ensuring that appropriate action is taken by the DCC to mitigate this.

Self-disconnections – we believe that the data smart meters provide suppliers gives greater insight and in a quicker timeframe than legacy prepayment meters. We note that Ofgem has recognised that this is an area that will develop over time as more smart meters operate in PAYG mode and customers become used to the new ways to top-up the meter. We will continue to work with organisations such as Citizens Advice to better understand such consumer issues.

Change of Tenancy – we agree with Ofgem’s view that consumers’ behaviour is independent of what the technology itself can offer or change. Suppliers will be able to use data from the smart meter to address some issues faced with legacy meters, such as agreeing the opening reading when the new tenant moved in or determining what the balance was on the meter in PAYG mode when a tenant moves out.

Customer Communications – it is important that customers understand how to operate their smart meter in PAYG mode and we are currently considering how we can effectively communicate with our prepayment customers. EDF Energy agrees with Ofgem that no further regulatory intervention is required at this time.

Chapter: Three

Q5. Do you agree with our assessment that the existing regulatory arrangements are fit-for-purpose for a smarter market, and that they pose no undue barrier to innovation? If not, please:

- **explain why**
- **suggest and explain any action we should take**

EDF Energy agrees with Ofgem’s assessment that the existing regulatory arrangements are fit-for-purpose and that they pose no undue barrier to innovation at this time.

Q6. Do you agree with our proposal to update the Safe & Reasonably Practicable Guidance? If not, please:

- **explain why**
- **suggest and explain any alternative action we should consider.**

EDF Energy welcomes the proposal to update the Safe & Reasonably Practicable Guidance to reflect smart prepayment arrangements; however, we believe further work is required

to ensure that these remain appropriate for smart meters. We would therefore urge Ofgem to consider forming a working group to consider how best to develop these arrangements on a holistic basis.

Q7. Do you agree with our proposed amendments to the Safe & Reasonably Practicable Guidance? If not, please:

- **explain why**
- **suggest and explain any alternative amendments we should consider.**

(Also see appendix 4 for detail on proposed changes)

As noted above in our response to Question 6, the proposed amendments appear appropriate at this time.

Q8. Do you agree with our proposal to monitor, through our Social Obligations Reporting, the number of smart prepayment consumers who have actively asked for alternative top-up methods so as not to require cash as a payment option? If not, please:

- **explain why**
- **suggest and explain any alternative amendments we should consider.**

Whilst EDF Energy agrees with Ofgem's proposals, and we can see that this information might be useful, there could be difficulties in collecting such information. A large number of these requests asking for an alternative payment method to cash will be made during general contact with our call centre and it could require changes to our CRM systems to enable this information to be captured. We would wish to avoid additional system development/change at a time when we are implementing a number of key industry changes.

We are concerned with the proposed wording to data item A8.27, particularly the word 'asked'. We will not be capturing occasions where customers have asked but have been refused on the grounds that it would not be safe and reasonably practicable to agree to that particular payment method. In addition, those customers who self serve will not have been 'asked' and therefore there is likely to be inaccuracy in reporting this data item. We believe the data item should denote the number of customers at the end of the reporting period that have switched to a payment method other than cash.

Q9. Do you agree with our proposed data points for inclusion in the SOR (on cash as a payment option and smart meter consumers on prepayment), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- **explain why**
 - **suggest and explain any alternative(s)**
- (Also see appendix 3 for detail on proposed changes)**

EDF Energy agrees with Ofgem's proposals.

Q10. Please provide any views on the risks and merits of differentials between smart and traditional prepayment tariffs. Please also provide views on mitigating actions that could be taken by parties, including by Ofgem, to address any perceived risks.

Smart prepayment opens up new and innovative ways for customers to top up their meter, and some of these channels will attract a lower cost to serve. We anticipate that the relevant cost to serve will be reflected in the market's smart prepayment tariffs.

However, EDF Energy recognises that the replacement of legacy prepayment meters will increase the average cost to serve for those customers remaining on legacy prepayment meters as the number of such customers gets ever smaller. To recover these costs, and to comply with SLC 27, a supplier would be expected to reflect these increases through its legacy prepayment tariffs. An alternative approach would be to spread these increases across all customers. We believe consideration should be given as to what should be done for customers who may not be able to benefit from smart prepayment, to ensure a small customer base does not need to fund the full legacy prepayment infrastructure.

Chapter: Four

Q11. Do you agree with our proposed approach to micro-businesses? If not, please:

- **explain why**
- **provide any evidence to support your position**
- **provide details on which existing arrangements we should consider extending to micro-business consumers, and why**

EDF Energy agrees with Ofgem's proposed treatment of micro-business customers. We agree with the assessment that the prevalence of prepayment in the micro-business market is very low. At present less than 2% of our customers in our SME billing systems have prepayment meters.

We support Ofgem's proposal that non-domestic meters should be included in the requirement to leave the Smart meter in credit mode at change of supplier, to ensure that the customer maintains supply, as the new supplier will already have a relationship with the customer we feel that this is a reasonable approach to take to ensure the switching process is straightforward. However, at a change of tenancy that this would not be appropriate as it increases the risks of debt in the small business market, particularly where premises are empty for a long period of time/no load-limiting is in operation.

We also agree with Ofgem's proposal that it is not proportionate to extend existing regulatory arrangements to micro-businesses. EDF Energy will continue to apply the self-regulatory principles of treating customers fairly with regards to debt and disconnection for customers with smart prepayment meters.

Chapter: Five

Q12. Please provide any general views on phasing out the traditional prepayment infrastructure.

This is an area where it will be necessary for industry to work together, and for there to be a central body to ensure that a collectively agreed solution is put in place where issues arise.

We further believe that communication with customers will be essential. Organisations such as Smart Energy GB and Citizens Advice etc will play a vital role in ensuring there are consistent messages throughout the process.

We do not know the expected number of customers with legacy prepayment meters that might not be able to benefit from a truly smart PAYG solution. We are mindful that the Communications Service Providers are still rolling-out their communications equipment and the WAN coverage postcode checker is being delivered. Once these have been completed, we will get a much clearer view of which locations fall into 'not spots' or 'never spots'. We can then map our legacy prepayment consumers against the WAN coverage data to identify where we have communication issues.

EDF Energy
October 2015