



Promoting choice and value
for all gas and electricity customers

Smart Metering Spring Package - Addressing Consumer Protection Issues

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Target audience: Energy suppliers and network operators, domestic and non-domestic consumers and their representative organisations, environmental bodies, meter asset providers, meter asset managers, meter operators and metering and communication equipment manufacturers, academics and other interested parties.

Overview:

The rollout of smart meters will bring significant benefits to consumers, helping them manage their energy use and expenditure and reduce carbon emissions. Proposals for the mandated rollout were set out in the joint Ofgem/DECC Prospectus published last July. This document sets out Ofgem's proposals for how it will ensure consumer interests remain protected in response to early moves by suppliers to start to install smart meters ahead of the government's mandated rollout. It proposes some updating of the important protections around prepayment and disconnection which could in future be done remotely. It also proposes obligations to help ensure consumers do not face barriers to switching where they have a smart meter.

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Context

Ofgem's principal objective is to protect the interests of existing and future gas and electricity consumers, wherever appropriate by promoting effective competition. In carrying out our functions we must also have regard to, amongst other things, the interests of vulnerable consumers, including those who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.

On behalf of the Department of Energy and Climate Change (DECC), Ofgem E-Serve has been managing the first phase of a central programme ("the Programme") to design and implement new cross-industry arrangements for the delivery of smart metering to all homes and small businesses in Great Britain. As part of this, in July 2010 DECC and Ofgem jointly published the Prospectus setting out proposals for implementation of the rollout.

This document sets out Ofgem's proposals in relation to "early movers" installing smart meters in the period prior to obligations relating to the mandated rollout being introduced. In particular, it includes proposals on remote disconnection and switching to prepayment and on ensuring consumers can continue to switch supplier. It is focused on ensuring consumers' interests remain protected in this initial period, in line with our principal objective, as suppliers start to install smart meters ahead of the mandated rollout. The forthcoming government response to the Prospectus consultation will cover the full range of issues raised in the Prospectus.

This "Spring Package" is a corporate strategy deliverable and a key part of Ofgem's Social Action Strategy for 2010-11.

Associated Documents

- Smart Metering Implementation Programme - Prospectus
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=40&refer=e-serve/sm/Documentation>
- Smart Metering Implementation Programme: Consumer Protection, July 2010, Ref 94a/10
<http://www.ofgem.gov.uk/e-serve/sm/Documentation/Documents1/Smart%20metering%20-%20Consumer%20Protection.pdf>
- Interim guidance – remote disconnection and remote switching to prepayment, August 2010
<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Remote%20disconnection%20and%20PPM%20guidance%20-%20open%20letter%20160810.pdf>
- Consumer Research on Disconnection Methods, Report by FDS International, December 2011
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=185&refer=SUSTAINABILITY/SOCACTION/PUBLICATIONS>

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Summary

Against a backdrop of government's proposals for a rollout of smart metering to all homes and small businesses in Great Britain we are aware that a number of suppliers are already introducing smart metering. For example, British Gas, who are already installing smart meters, have indicated that they expect to have two million smart meters in place by the end of 2012.

Smart metering will deliver significant benefits to consumers. The in-home display (IHD) will provide real-time information about energy consumption which, together with accurate bills, will help consumers to manage their energy usage and expenditure and reduce their carbon emissions. Smart metering will also enable suppliers, and other market entrants such as energy service providers, to offer improved customer service together with innovative products and tariffs.

However, smart metering presents new issues which it is important to address in order to ensure the continued safeguarding of consumers' interests. Smart metering requires smart regulation. We are therefore consulting, in this "Spring Package", on a range of licence changes which will update and clarify the consumer protections in the gas and electricity supply licences to reflect a smart metering environment.

Our proposals in this Spring Package are aimed at protecting consumers in the context of "early movers", recognising that the full regulatory framework being developed by the Smart Metering Implementation Programme ("the Programme") will take time to put in place and that Ofgem's role as regulator is to protect the interests of consumers in the face of market developments.

This document consults on consumer protections around remote switching to prepayment and remote disconnection, and commercial interoperability which is important in ensuring consumers can continue to switch supplier where they have a smart meter. We also cover a number of other elements of consumer protection. In some cases these are more appropriately left to the Programme to resolve. In others, where they do not cause short term risks to consumers' interests through early movers, we are proposing to address them on a longer timescale as it becomes clearer what the specific risks and issues are.

Remote switching to prepayment and remote disconnection

Smart metering enables remote disconnection and remote switching between credit and prepayment mode. This has a number of benefits for consumers, including the ability to switch between payment methods easily and top-up over the telephone or the internet. However, it also creates a number of new issues, in particular that there will no longer be an operational need to visit the premises to disconnect or install a prepayment meter. We have therefore reviewed the existing licence conditions and propose to make licence changes to require suppliers:

- to have regard to guidance issued by the Authority in respect of considering whether it is safe and reasonably practicable for a customer to be offered prepayment and identifying whether the customer or occupants of premises are vulnerable before disconnection
- where they become aware or have reason to believe it is no longer safe and reasonably practicable for a customer to use prepayment, to offer alternative arrangements
- to provide information on how to use a prepayment meter or smart meter in prepayment mode, including the methods of topping-up that are available to the customer.

Given the importance of these issues we will take a robust approach to enforcement in this area, particularly where vulnerable customers are involved.

We are also asking suppliers to update their "safety net"¹ arrangements to take account of smart metering. We want suppliers to include a commitment to rapid reconnection and the payment of compensation if a customer is disconnected in error. We also want these standards to be adopted by smaller suppliers. If necessary we would consider introducing licence obligations or new guaranteed standards in these areas.

We are also proposing to update the supply licence to ensure that alternative forms of disconnection enabled by smart meters, namely load limiting and credit limiting² are appropriately dealt with. Our aim is to ensure that these are not used as back door alternatives to disconnection while allowing for genuinely innovative uses, such as tariffs linked to different load levels which could benefit consumers by better recognising different consumption patterns and could contribute to carbon reduction.

We are also seeking responses to our proposal that licence amendments are not necessary for prepayment meters and disconnection for non-domestic (including micro-business) customers. However, we plan to increase our monitoring of disconnection and prepayment use and are asking suppliers to agree to rapid reconnection and compensation arrangements for wrongful disconnection in the non-domestic sector.

Commercial interoperability

It is important that where a customer has a smart meter installed this does not create a barrier to them switching supplier. While the Programme is considering the steps needed to ensure full technical and commercial interoperability we are proposing high level obligations now on suppliers to offer commercial terms for use of the meter and potentially also the communications and associated equipment depending on the approach taken by the Programme in this area. These terms should be reasonable and non-discriminatory.

In these very early stages of rollout we recognise that the meter may need to revert to dumb mode on change of supplier, although over time clearly customers will expect to retain the full smart functionality.

At this early stage, ahead of obligations relating to mandated rollout and full technical and commercial interoperability being introduced, smart prepayment presents a particular challenge as these meters cannot be used in dumb prepayment mode. Without a communications link there is no ready way to top up the meter as there will no longer be any physical device (key, card etc). In order to encourage suppliers to find a solution to this issue and to protect consumers in the meantime we are proposing that suppliers should not be allowed to install smart meters for use in prepayment mode unless they could be used in prepayment mode by an incoming supplier.

¹ The Safety Net is a voluntary code of practice on debt and disconnection run by the Energy Retail Association. British Gas, EDF Energy, E.ON, npower, Scottish Power and Scottish and Southern Energy are signed up to the code.

² Load limiting is also known as 'trickle disconnection' and is where customers are limited to a minimal flow of electricity. Credit limiting is also known as 'managed credit' and is where customers are automatically cut off if they owe more than a predetermined amount.

These licence conditions are intended to continue in place only until such time as the Programme develops a longer term response to issues of technical and commercial interoperability.

Privacy

The increased volume of data about household energy use available through smart meters has the potential to benefit consumers, in terms of new services tailored to consumers' needs, but also presents privacy concerns. While the privacy framework for mandated rollout is a matter for the Programme and Ministers to determine it is important that consumers' interests are protected in these early stages. We will therefore work with the Information Commissioner's Office (ICO) and use our own consumer protection powers as appropriate to ensure that suppliers are complying with existing legislation and are making clear to consumers the choices open to them.

Other elements of consumer protection

The Prospectus identified a number of other important consumer protection issues including sales and marketing during the installation visit and tariff complexity. Consideration of these is being progressed by the Programme and in the context of Ofgem's Retail Market Review.

Next steps

The deadline for responses to this consultation is 13 April 2011. Following consideration of the responses, we will issue our statutory consultation on the changes. We are anticipating any changes to licence conditions will be in place by the end of the summer.

1. Introduction

This chapter outlines the context to the Spring Package and sets out the structure of the document. It also sets out the next steps for our Spring Package.

Context

1.1. The rollout of smart meters to all homes and smaller businesses in Great Britain will deliver significant benefits to consumers. The in-home display (IHD) to be provided to all domestic customers will provide real-time information about energy consumption which will help customers to manage their energy use and expenditure, and reduce their carbon emissions. Consumers can expect improved customer service including more accurate bills, as well as smoother switching between suppliers. Smart metering will also enable suppliers to offer better tailored energy tariffs and provide new services. Furthermore, consumers stand to benefit from the potential for better management of, and investment in, the electricity network.

1.2. Standards of conduct and licence obligations are already in place to protect consumers' interest. Suppliers must also comply with wider consumer protection legislation. As smart meters are rolled out across Great Britain, Ofgem is committed to ensuring these protections are appropriate and, where necessary, will establish new protections to continue to safeguard consumers' interests.

1.3. Some suppliers are already providing, or have indicated that they intend to provide, smart meters to consumers in advance of the mandated rollout. This will help bring forward the benefits of smart metering and draw on early consumer enthusiasm. However it is important that these suppliers introduce smart meters³ in a way that protects consumer interests and promotes consumer choice and benefits.

1.4. The Smart Metering Prospectus and supporting documents issued jointly by DECC and Ofgem in July last year explained that Ofgem intended to bring forward a package of measures in Spring 2011 to provide for the continued safeguarding of consumers' interests⁴. It was envisaged that this would help ensure that vital consumer protections in areas such as remote disconnection were in place to deal with early movers. It was also stated that the package could include measures around interoperability aimed at

³ One of the issues being considered by the Programme, and which will form part of the government's response to the Prospectus, is the functional specification for smart meters and the potential for a common technical specification. It is possible that some of the meters currently being installed may not be compliant with these requirements. In this document, where we refer to smart meters, this covers any meter with smart functionality.

⁴ The document of particular relevance is 'Smart Metering Implementation Programme: Consumer Protection, and is available at the following link:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=40&refer=e-serve/sm/Documentation>

ensuring consumers can continue to switch suppliers in a straightforward manner. Views were sought on the protections needed in these areas and in relation to other aspects of consumer protection being taken forward by the Programme.

1.5. Ofgem's proposals for the Spring Package take account of information relevant to the Spring Package provided in September/October 2010 in response to the Prospectus. It also draws on a number of workshops held specifically to consider aspects of the Spring Package together with evidence from ongoing Ofgem work on debt and disconnection and the Review Of Metering Arrangements (ROMA).

1.6. DECC and Ofgem are still in the process of considering the responses to the Prospectus for the purposes of determining how smart metering will ultimately be delivered. It remains open to the Programme to introduce further changes in these areas, in relation to the mandatory rollout of smart meters, if it considers it necessary having considered the responses in the round. Ofgem will continue to work closely with the Programme across all smart metering issues to ensure consistency and coherence. In reaching final decisions on the proposals set out here we will take account of the forthcoming government response to the Prospectus. A full set of responses to the consultation will be published alongside that response.

Structure of the document

1.7. The structure of this document is:

- Chapter 2 deals with remote disconnection and switching between prepayment and credit, looking at how the current protections need to be updated to take account of the remote functionality in smart meters. It also considers if more protections are needed for non-domestic customers
- Chapter 3 deals with privacy issues
- Chapter 4 deals with commercial interoperability and the steps needed to ensure that consumers with a smart meter can continue to switch supplier without needing a further change of meter in response to early movers and ahead of the mandated rollout
- Chapter 5 deals with other elements of consumer protection that have been identified.

Next steps

1.8. The deadline for responding to this consultation is 13 April 2011. Information on how to respond is provided in Appendix 1 to this consultation.

1.9. Following consideration of the responses, we will issue our statutory consultation on the changes. We are anticipating any changes to licence conditions will be in place by the end of the summer.

2. Prepayment and remote disconnection

Smart metering will enable remote disconnection and remote switching between credit and prepayment mode. This chapter sets out the existing protections concerning disconnection and the use of prepayment meters and explains our proposed amendments to these protections to ensure the continued safeguarding of consumers' interests for smart meters which are installed in advance of the mandated roll out. It also requests views on our proposed amendments.

Prepayment

Question 1: Do you agree with our proposal to issue guidance on safe and reasonably practicable and require suppliers to have regard to this guidance through a licence amendment? If not, what else is needed?

Question 2: Do you agree with our proposal to require suppliers, where they know or have reason to believe that prepayment is no longer safe and reasonably practicable for a customer, to offer an alternative payment method or some other form of action?

Question 3: Do you have any comments on our proposed guidance regarding taking into account whether it is safe and reasonably practicable for a customer to pay by prepayment?

Question 4: Do you agree with our view that the current notification periods for switching to a prepayment meter are sufficient?

Question 5: Do you agree with our proposal to require suppliers to give customers information on using a prepayment meter ahead of switching them to prepayment?

Question 6: Do you consider it necessary to explicitly require suppliers to provide the ability to top-up by cash where payment is made through a prepayment meter?

Disconnection

Question 7: Do you agree with our proposal to issue guidance on identifying vulnerability prior to disconnection and require suppliers to have regard to this guidance through a licence amendment? If not, what else is needed?

Question 8: Do you have any comments on our proposed guidance regarding identifying vulnerability prior to disconnection?

Question 9: Do you agree that suppliers should ensure rapid reconnection and provide compensation on a voluntary basis where any customer has been disconnected in error?

Question 10: Do you agree with our view that the current notification periods for disconnection are sufficient?

Question 11: Do you agree with our proposal to explicitly set out in the supply licences that load limiting and credit limiting amount to disconnection in certain circumstances?

Question 12: Are there any protections that should be considered regarding disconnection and prepayment for non-domestic customers? If so, what are these? Please provide evidence to support your views.

2.1. Smart metering enables remote switching between credit and prepayment mode and remote disconnection. This has a number of benefits: the consumer will be able to switch payment methods easily if their circumstances change and can potentially top-up remotely over the internet or telephone. In addition, consumers will not need to insert a key into the meter to top it up, which is currently the cause of a high level of faults on prepayment meters (PPMs).

2.2. However, it also creates a number of new issues in that it will become much easier from a technical perspective for suppliers to switch customers to prepayment mode or disconnect them. Given the importance of these issues, we have been reviewing whether changes to the existing licence conditions are required to ensure the continued safeguarding of consumers' interests.

2.3. The July Prospectus consultation sought views on whether it was necessary to make changes to these licence conditions⁵. Ofgem has also held two workshops with suppliers and consumer groups to discuss these issues and potential changes to be included in the Spring Package. Ofgem also has an ongoing programme of work on debt and disconnection, including promoting best practice and monitoring compliance with existing obligations, which it has drawn on in developing these proposals.

2.4. Since the July consultation, we have published interim guidance on the licence conditions confirming that they continue to apply where the customer has a smart meter and the supplier is capable of remotely switching to PPM or remotely disconnecting⁶.

2.5. Ofgem has also introduced a new licence obligation on suppliers to take all reasonable steps to ascertain the status of a customer and the occupants of any affected domestic premises before disconnection⁷. This came into effect from 1 October 2010.

Existing consumer protections

2.6. The rights of suppliers to use PPMs and disconnect customers are set out in the Gas Act 1986 and the Electricity Act 1989. The Acts stipulate that the customer must be given at least 28 days to pay their bill and then at least 7 days notice before the supplier can install a PPM or disconnect the supply following non-payment of charges.

2.7. The domestic supply licence provides additional protections regarding prepayment, including a requirement that, where the supplier has more than 50,000 customers, they must offer a wide choice of payment methods, including payment through a PPM. That licence condition also stipulates that suppliers must offer a PPM where it is safe and

5 Smart Metering Implementation Programme – Prospectus:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=40&refer=e-serve/sm/Documentation>

6 Interim guidance – remote disconnection and remote switching to prepayment:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=169&refer=Sustainability/SocAction/Publications>

7 Modification Direction for insertion of SLC 27.11 (A) in the gas & electricity supply licences:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=170&refer=Sustainability/SocAction/Publications>

reasonably practicable to do so to domestic customers who are struggling to pay their bills irrespective of how many customers the supplier has.

2.8. Ofgem has previously provided supplementary guidance⁸ alongside the licence conditions explaining that what is "safe and reasonably practicable" should be considered from the domestic customer's perspective. We indicated that relevant factors are likely to include whether the customer is able to understand and operate the PPM and visit top-up points to add more credit. Ofgem also said it may not be reasonably practicable to provide a PPM if a customer needs to travel over two miles to top-up the credit, and does not have a car.

2.9. In relation to disconnection for unpaid charges the supply licences include a requirement to offer consumers alternative methods of payment (such as prepayment) and an affordable repayment plan prior to disconnection. Suppliers are also prohibited from knowingly disconnecting customers of pensionable age during the winter (October to March). Suppliers must take all reasonable steps to avoid disconnecting premises during the winter where any of the occupants are disabled, chronically sick or of pensionable age. Suppliers are also now obliged to take all reasonable steps to ascertain the status of a customer and the occupants of any affected domestic premises before proceeding with disconnection.

2.10. We have previously provided guidance on the types of proactive steps we would expect suppliers to take to determine the status of consumers and occupants prior to disconnection⁹. This includes undertaking at least one personal visit to the property which is at risk of being disconnected. In addition to a site visit, other steps identified in the guidance include reviewing all the notes on the customer's accounts to ensure that no vulnerability is recorded, ensuring that the customer is not registered on their Priority Services Register (PSR) and seeking senior management authorisation prior to any disconnection being carried out. Such checks may also be important in ensuring more generally that the correct property is being disconnected and that there are no other factors that might mitigate against disconnection.

2.11. Suppliers must provide appropriate information to PPM customers about the advantages and disadvantages of a PPM and where they may obtain information or assistance if the PPM or PPM device is not operating effectively. There are also procedures that suppliers must follow when removing or resetting the PPM, including the timescale and any conditions for removing or resetting the meter.

2.12. Members of the Energy Retail Association (ERA) have also introduced further voluntary protections through their code of practice known as the "Safety Net" which precludes the disconnection of vulnerable customers at any time.

8 Supplementary document for the electricity supply licence standard conditions:
[http://www.ofgem.gov.uk/Markets/RetMkts/Compl/SLR/Documents1/Appendix%2010%20SLR%20-%20Supplementary%20document%20\(electricity\)%20\(Final\).pdf](http://www.ofgem.gov.uk/Markets/RetMkts/Compl/SLR/Documents1/Appendix%2010%20SLR%20-%20Supplementary%20document%20(electricity)%20(Final).pdf)

9 The following is a link to an open letter which includes our guidance on what may constitute reasonable steps to identify the status of customers prior to disconnection:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=150&refer=Sustainability/SocAction/Publications>

Prepayment

2.13. The following sets out our proposed approach to ensuring the continued safeguarding of consumers' interests where a supplier is able to remotely switch a customer from credit to prepayment mode.

Identifying where safe and reasonably practicable

2.14. As noted above, the gas and electricity supply licences currently require suppliers to offer a prepayment meter (PPM) to customers struggling to pay only where it is safe and reasonably practicable for the customer to use the PPM.

2.15. There are a number of factors which may make it difficult or unsafe for the customer to pay this way. These include: where the meter is in an inaccessible place, such as in an in-take room (often found in flats) or if its location is at an unreasonable height, or where the customer's circumstances mean they are unable to understand how to operate or top-up the PPM.

2.16. Currently suppliers need to physically visit the customer's premises in order to install the PPM. This provides an opportunity to consider whether it is safe and reasonably practicable for the customer to use the PPM. Where the meter is capable of being remotely switched to PPM there may no longer be an operational reason to visit the premises. Therefore, the supplier will need to amend its processes to ensure it can be satisfied it is safe and reasonably practicable to make the switch. Given this, it has also been necessary for us to review whether the current licence requirement will continue to be appropriate. As part of this review, views were sought in the July 2010 Prospectus consultation on whether the licence condition needs amending.

2.17. Some respondents considered that we should require a site visit to minimise the risk of a customer being inappropriately switched to prepayment mode. However, a number of consumer groups supported not requiring a site visit if the supplier had already spoken to the customer and identified their circumstances through other means.

2.18. In our view the current requirement to offer prepayment only where safe and reasonably practicable maintains an emphasis on the outcomes that we want to achieve (i.e. switching to prepayment only where it is safe and reasonably practicable for the customer to use the meter in this mode in all circumstances of the case). We consider a focus on outcomes is to be preferred as this prevents suppliers approaching the issue with a checklist mentality. It also avoids the cost of a site visit in cases where the supplier is confident from other sources that there are no issues of vulnerability.

2.19. Some consumer groups also considered that the burden of proof should be placed on suppliers to ensure that prepayment is safe and reasonably practicable for the customer and that the licence condition should be amended to reflect this.

2.20. Suppliers have an absolute obligation to offer prepayment only where it is "safe and reasonably practicable to do so". As a result, there is an implicit obligation on the supplier to check whether or not it is safe and reasonably practicable and we would enforce this obligation in this way. In the event of an alleged breach of the licence condition, we would expect the supplier to be able to demonstrate that the installation was safe and reasonably practicable. We therefore consider that it is not necessary to amend the licence condition in this regard.

2.21. In our view no customers should be switched to prepayment mode inappropriately. Where a customer has been, and particularly where they are vulnerable, we are likely to consider that enforcement action would be a proportionate response in **any** case. In addition to taking a tough line on compliance, we propose to reinforce the existing obligations in this area by:

- requiring suppliers to have regard to guidance published by the Authority setting out the interpretation of safe and reasonably practicable, the types of situations where it may not be safe and reasonably practicable for the customer to use a prepayment meter and examples of the steps that suppliers will need to take to check whether it is safe and reasonably practicable for the customer to use a prepayment meter
- requiring suppliers, where they become aware of a change in a prepayment customer's circumstances such that prepayment is no longer "safe and reasonably practicable", to offer to move the meter, take some other form of action which will make it safe and reasonably practicable for the customer to continue to use the prepayment meter, or offer an alternative payment method so that the customer no longer has to use a prepayment meter. This proposal aligns with the current protections around prepayment meters to ensure that customers currently paying through a prepayment meter can have alternative arrangements if prepayment is no longer safe and reasonably practicable for them. As such, this new protection is additional to our proposals relating to smart metering.

2.22. Suppliers have also provided a commitment to carry out site visits where they have not already spoken to a customer.

2.23. In addition, suppliers will need to identify whether the debt repayment amount they have set on the PPM is in accordance with the customer's ability to pay. Where the supplier has not already spoken to the customer, it is important, and in accordance with Ofgem's key principles for ability to pay, that suppliers monitor whether customers are adding credit to the PPM and whether their usage has diminished¹⁰. A fall in usage could be indicative of the customer struggling to meet debt repayments.

2.24. In order to ensure the language within the gas and electricity supply licence conditions keeps pace with smart metering, we are also proposing to insert a definition of "Prepayment Meter" which includes any meter operating in or switched to prepayment mode. This amendment clarifies that any requirements in the licences relating to prepayment meters apply equally where a smart meter is in prepayment mode, in line with our Interim Guidance.

2.25. Our proposed licence amendments are shown in Appendix 2.

¹⁰ Ofgem published a number of key principles that suppliers need to take into account in considering a customer's ability to pay when setting debt repayment amounts. The principles are published in Appendix 1 of Ofgem's 'Review of suppliers' approaches to debt management and prevention', available at the following link: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=151&refer=Sustainability/SocAction/Publications>

2.26. Our draft guidance is in Appendix 3. The guidance specifies that, where suppliers have not had contact from the customer, they must seek to speak to the customer through a variety of means and at various times of the day and week, including visiting the customer's premises. We have also indicated some of the circumstances in which it may not be safe and reasonably practicable for the customer to use a PPM. However, the guidance is not exhaustive and it is ultimately for suppliers to determine the steps they need to take to achieve the outcomes.

Question 1: Do you agree with our proposal to issue guidance on safe and reasonably practicable and require suppliers to have regard to this guidance through a licence amendment? If not, what else is needed?

Question 2: Do you agree with our proposal to require suppliers, where they know or have reason to believe that prepayment is no longer safe and reasonably practicable for a customer, to offer an alternative payment method or some other form of action?

Question 3: Do you have any comments on our proposed guidance regarding taking into account whether it is safe and reasonably practicable for a customer to pay by prepayment?

2.27. In addition to these proposed amendments, we expect that self regulation will continue to play a role and expect members of the ERA to update their voluntary code of practice known as the "Safety Net" in relation to switching customers to prepayment mode.

Notification

2.28. The Gas Act 1986 and the Electricity Act 1989 require suppliers to give the customer seven days notice of their intention to install a prepayment meter. Our view is that this requirement continues to apply where a supplier intends to remotely switch the customer's meter to prepayment mode. Ofgem does not have the powers to amend the Gas and Electricity Acts therefore any amendments to these Acts would need to be taken forward by government.

2.29. We have also considered whether the seven day notice period is sufficient. Most respondents considered the seven day notice period to be sufficient but only where suppliers continued to follow the appropriate debt path, including early discussion about repayment methods and amounts and make multiple attempts to contact the customer by various methods.

2.30. Given respondents' views, we are not proposing to ask government to consider whether the notification periods in the Gas and Electricity Acts should be amended. However, we are currently considering whether to include these notification periods in the standard conditions of the electricity and gas supply licences.

Question 4: Do you agree with our view that the current notification periods for switching to a prepayment meter are sufficient?

Information on PPMs

2.31. At present, suppliers must provide appropriate information to PPM customers about the advantages and disadvantages of a PPM and where they may obtain information or assistance if the PPM or the device used to top up is not operating effectively. However, there are currently no requirements on suppliers to provide information on how to operate the PPM.

2.32. Prepayment through a smart meter potentially has a number of differences compared to the current prepayment systems, particularly around the variety of methods of topping-up. As a result, we have considered whether suppliers should be obliged to provide information to the customer on how to use the meter in prepayment mode and the methods of topping-up that are available to the customer. Consumer groups responding to the July 2010 Prospectus consultation considered that this information would be useful where the customer is switched to prepayment mode.

2.33. We are therefore proposing to amend the licence conditions to require suppliers to provide information to customers relating to the operation of the prepayment meter and the methods by which the customer can pay in advance through the meter. We will also make it explicit in this licence condition that information about prepayment meters should be provided prior to the installation of the PPM.

Question 5: Do you agree with our proposal to require suppliers to give customers information on using a prepayment meter ahead of switching them to prepayment?

Applying credit to the meter

2.34. One of the benefits of smart meters is the potential for new ways of adding credit in prepayment mode, for example over the phone or online. However, it is likely that in order to take advantage of these methods the customer will need a bank account. We encourage suppliers to bring forward innovative methods such as these that do not require a bank account (such as top-up via text message). However, we believe that some customers will still need to top-up with cash at a local shop or garage as it is likely there will always remain a substantial core group without access to a bank account (or at least without the transactional facilities required).

2.35. We consider that, if a supplier did not allow customers to top-up using cash, a customer without a bank account would not find paying by prepayment "reasonably practicable" and therefore the supplier would not be able to offer prepayment to that customer. However, in order to make it explicit that suppliers should continue offering the ability to top-up using cash, we are seeking views on whether to make an amendment to clarify the requirement on suppliers to offer payment by cash by adding that this includes circumstances where payment is made through a prepayment meter.

Question 6: Do you consider it necessary to explicitly require suppliers to provide the ability to top-up by cash where payment is made through a prepayment meter?

Self disconnection

2.36. Smart meters provide the opportunity to better understand whether customers are self disconnecting on a regular basis and to offer new services to help reduce the risk of them doing so. In the Prospectus consultation we asked for respondents' views on whether suppliers should be required to provide emergency credit and/or friendly credit periods. We are also aware that approaches such as load limiting could also be adopted for prepayment customers which would enable prepayment customers to continue using the lights and fridge/freezer, for example, even where they had run out of credit.

2.37. Most suppliers already offer emergency credit, a fixed value of gas or electricity (typically around £5-7) which is available to be used at any time of day when the customer runs out of credit. Some suppliers also offer 'friendly credit' periods on some types of electricity PPM where at certain times of day (such as overnight or at weekends) the supply will not disconnect regardless of usage or credit status.

2.38. Consumer groups responding to the consultation considered that suppliers should have a duty of care to customers who regularly self disconnected. However, they were concerned that emergency credit and friendly credit periods were only emergency measures, which needed to be paid back before the customer was in credit again. These measures therefore did not address the wider problem of affordability for some customers.

2.39. Suppliers generally did not consider it necessary to require such measures because they already offered them on a voluntary basis, particularly where the technology allowed them to do so.

2.40. At this stage we are proposing to continue monitoring whether suppliers are offering these measures, rather than introduce any new requirements. However, we will be encouraging suppliers to continue monitoring persistent cases of self disconnection. We will call upon them to offer tailored help to these customers, including offering emergency and friendly credit and considering whether these customers may qualify for extra help with their fuel bills, such as a social tariff or rebate.

2.41. One consumer group also raised some concerns that customers were being asked to pay a higher rate for any emergency credit used. Suppliers have confirmed that customers using emergency credit are not charged a premium. However, there may be a perception that this is the case because customers have to pay back the emergency credit before they are back in credit.

Remote disconnection

2.42. The following sets out our proposed approach to ensuring the continued safeguarding of consumers' interests in relation to remote disconnection of supply for unpaid charges.

Identification of vulnerable customers

2.43. Suppliers are prohibited from knowingly disconnecting customers of pensionable age in the winter (October to March) where they live alone or only live with other pensioners or children. Suppliers must also take all reasonable steps to avoid

disconnecting premises during the winter where any of the occupants are disabled, chronically sick or of pensionable age. Suppliers are also obliged to take all reasonable steps to ascertain the status of a customer and the occupants of any affected domestic premises before considering whether or not to disconnect the premises. We have previously provided guidance on what may constitute such reasonable steps.

2.44. At present, when suppliers are looking to disconnect a property for unpaid charges they typically carry out a site visit prior to disconnection and a site visit at the point of disconnection. With smart metering, site visits will no longer be needed for operational reasons to physically disconnect supply. While the site visit at the point of disconnection is only one of a series of checks that suppliers carry out, it remains an important backstop opportunity to identify vulnerability.

2.45. The July 2010 Prospectus consultation sought views on whether the obligation to take all reasonable steps to check whether the customer is vulnerable ahead of disconnection was sufficient to ensure that vulnerable customers continued to be protected from disconnection. It also sought views on whether an explicit requirement for a site visit would be beneficial.

2.46. A number of consumer groups responding to the consultation considered that there should be a home visit by suppliers if no contact had been received from a consumer. Some also recommended that, in addition, suppliers should contact the consumer at the time of disconnection. On the other hand, a small number of respondents considered that a site visit should be made mandatory. Some consumer groups also considered that our previous guidance on what constitutes reasonable steps in checking the status of customers and occupants prior to disconnection should be made mandatory.

2.47. Suppliers responding to the consultation considered that no changes were required to the relevant licence conditions and have committed to continue to carry out site visits prior to disconnection where they have not already spoken to a customer.

2.48. As with our proposals in relation to what is safe and reasonably practicable, we are not proposing to mandate a site visit because we consider an approach focused on outcomes prevents suppliers adopting a tick list mentality. If the supplier has already spoken directly with the customer a site visit may not be necessary.

2.49. However, it is essential that vulnerable customers are protected from disconnection. Therefore, where a vulnerable customer has been disconnected, we will take a tough line on compliance and are likely to consider enforcement action to be a proportionate response in a single case. In addition to taking a tough line on compliance, we propose to reinforce the existing obligations in this area by requiring suppliers, through an amendment to the supply licences, to have regard to guidance issued by the Authority on what may constitute reasonable steps to identify the status of customers and occupants prior to disconnection.

2.50. The draft guidance is provided in Appendix 4.

Question 7: Do you agree with our proposal to issue guidance on identifying vulnerability prior to disconnection and require suppliers to have regard to this guidance through a licence amendment? If not, what else is needed?

Question 8: Do you have any comments on our proposed guidance regarding identifying vulnerability prior to disconnection?

2.51. In addition to our proposal to issue guidance, we expect that self regulation will continue to play a role and expect members of the ERA to follow their voluntary code of practice known as the "Safety Net" in circumstances of remote disconnection. Suppliers should be applying the same disciplines which apply to physical disconnection when disconnecting remotely - namely multiple attempts to contact customers about their energy debt, including contact by personal visit to the property over a period of time if other approaches have failed, before firmer debt follow-up measures are pursued. This not only gives the customer a further opportunity to enter into a repayment plan that they can afford but also helps identify vulnerable customers or occupants who would be at risk if the premises were disconnected and minimises the risk of disconnection in error.

2.52. We are also aware of concerns regarding customers being wrongfully disconnected given that remote disconnection will not necessarily involve a physical visit to the premises at the time the customer is disconnected.

2.53. As a result of Ofgem and Consumer Focus' joint review of disconnection in 2009¹¹, the six major suppliers committed as part of their ERA Safety Net to reconnect vulnerable customers that had not been previously identified as such as soon as possible and usually within 24 hours. We will be asking suppliers to extend this commitment to all customers who have been wrongfully disconnected and to accommodate a much faster reconnection where there is a smart meter given this can be done remotely. We will also ask suppliers to commit to paying compensation if they have disconnected in error. We are proposing that the six main suppliers implement these commitments through the ERA Safety Net and we will seek an equivalent commitment from small suppliers.

2.54. If suppliers do not implement measures, including compensation arrangements, to address any wrongful disconnections on a voluntary basis we will consider whether changes to the supply licences or the gas and electricity guaranteed standards are needed¹².

Question 9: Do you agree that suppliers should ensure rapid reconnection and provide compensation on a voluntary basis where customers have been disconnected in error?

¹¹ Review of Protection for vulnerable customers from disconnection:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=139&refer=Sustainability/SocAction/Publications>

¹² Electricity (Standards of Performance) Regulations 2005:
<http://www.legislation.gov.uk/uksi/2005/1019/contents/made>
Gas (Standards of Performance) (Amendment) Regulations 2008:
http://www.legislation.gov.uk/uksi/2008/696/pdfs/uksi_20080696_en.pdf

Notification

2.55. As with the installation of a prepayment meter, the Gas Act 1986 and the Electricity Act 1989 require suppliers to give the customer seven days notice of their intention to disconnect a premise for unpaid charges. Our view is that this requirement continues to apply where a supplier intends to remotely disconnect the premises.

2.56. The July 2010 Prospectus consultation sought views on whether the seven day notice period is sufficient. As with the installation of a prepayment meter, most respondents considered the seven day notice period to be sufficient but only where suppliers continued to follow the appropriate debt path, including early discussion about repayment methods and amounts and make multiple attempts to contact the customer by various methods.

2.57. Given respondents' views, we are not proposing to ask government to consider whether the notification periods relating to disconnection should be amended.

Question 10: Do you agree with our view that the current notification periods for disconnection are sufficient?**New approaches to disconnection**

2.58. The new functionality of smart meters enables suppliers to offer new approaches to disconnection for unpaid charges. The government has specified that the smart metering system must support load limiting (also known as 'trickle disconnection' where the customer is able to use limited levels of electricity to cover basic needs such as lighting and the fridge/freezer). Smart metering also makes credit limiting (also known as 'managed credit' where customers are automatically cut off if they owe more than a pre-determined amount) an option. In addition, the facility for remote disconnection and reconnection allows time limited disconnection. Some of these approaches could also be used for PPM customers as an alternative when credit runs out (and when the customer currently self disconnects).

2.59. "Managed credit" has certain similarities with prepayment but a key distinction is whether the customer has to repay an agreed part of the debt or all of the debt before they are reconnected (and then continue to pay on credit terms) or whether it is part of an agreed prepayment arrangement (as with emergency credit).

2.60. In order to understand the consumer acceptability of these types of disconnection for the purposes of debt management, we have commissioned FDS International to carry out a number of focus groups, including with customers struggling to pay their energy bills and some that are not. FDS' findings suggest that those not struggling to pay consider these types of disconnection to be preferable to total disconnection. However, those struggling to pay were opposed to the proposition and had a number of concerns

over their ability to do activities such as cooking. This research has been published alongside this consultation¹³.

2.61. Many respondents to the consultation considered that it was essential these new approaches to disconnection were covered by the protections regarding disconnection and that vulnerable customers continued to be protected from these approaches.

2.62. While we must ensure that customers, particularly the vulnerable, continue to be appropriately protected from actions which amount to disconnection, we need to also ensure, at this stage, that we do not limit suppliers' ability to genuinely innovate and provide benefits in the tariffs they offer and their approaches to debt management. In particular we anticipate that suppliers may wish to offer different tariff rates for different levels of load (as happens in France for example).

2.63. Given the findings of our consumer research and our concerns regarding vulnerable customers, we are proposing to make it explicit in the supply licences that load limiting and credit limiting amount to disconnection in the following circumstances:

- credit management where it amounts to stopping the supply to the domestic premises except where the domestic customer uses a prepayment meter
- load limiting where the supply to the domestic premises is significantly constrained except where the domestic customer uses a prepayment meter.

2.64. In addition, we propose to require that where the supplier uses either of these types of disconnection, it is included as a Principal Term in the customer's domestic supply contract.

Question 11: Do you agree with our proposal to explicitly set out in the supply licences that load limiting and credit limiting amount to disconnection in certain circumstances?

2.65. Ensuring customers continue to be protected from what amounts to disconnection is an urgent issue and therefore is forming part of the Spring Package. However, this may be the first stage of our work relating to load limiting and credit management, depending on whether suppliers implement such approaches. At a later date, as any technical specification and suppliers' intentions are better understood, it may be necessary to reconsider protections, including how customers are informed that they are nearly at their load limit.

¹³ Consumer Research on Disconnection Methods, Report by FDS International, December 2011: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=185&refer=SUSTAINABILITY/SOCACTION/PUBLICATIONS>

Non-Domestic Customers

2.66. Concerns about the use of the remote disconnection or prepayment switching functionality are one of the key issues raised by small business representatives in discussions on smart metering.

2.67. Particular concerns were the possibility of disconnection in error and more frequent enforced use of prepayment which could be difficult for small businesses to cope with both at a practical level and in terms of cash flow implications. Concerns were also raised about whether there should be a requirement for proof that appropriate notice had been received. For non-domestic customers there are issues about who such notices should be sent to within organisations (head office/finance department/ local site) with potential safety issues if the customer on site was not aware of the impending disconnection.

2.68. At present the requirements in the Gas and Electricity Acts about providing notice ahead of disconnection or prepayment installation apply to business customers as well. The Acts also say that suppliers cannot disconnect a customer while there is a valid dispute over debt. As discussed above, these protections would continue to apply in a smart metering context. The additional protections in the supply licence only apply to domestic customers.

2.69. Some non-domestic representatives have suggested that, with the additional risks presented by smart metering, the domestic protections should be extended to non-domestic customers. However it is not clear that the current domestic protections would actually address the issues that non-domestic customers are concerned about.

2.70. In particular, in the context of disconnection the domestic protections are around offering alternative payment arrangements taking ability to pay into account and not disconnecting vulnerable customers in winter. The prepayment protections – and in particular the requirement that the supplier can only require prepayment where it is “safe and reasonably practicable” – could be relevant in a small business context. Even then it would be reasonable for suppliers to assume that all non-domestic customers have access to a bank account so, for example, distance from an outlet would not be a consideration. The ability to access the meter to re-enable supply and to have visibility of the level of credit remaining would be relevant considerations. However, it is not clear at this stage that licence protection is required to address these issues for business customers.

2.71. At this stage therefore we are not persuaded that additional protections are needed in the non-domestic sector.

2.72. We will however increase our monitoring in this part of the market to track both disconnection levels and the use of prepayment to enable us to pick up any significant changes in the level of usage and differences in practice between suppliers. We would also welcome any feedback from consumer representatives on any issues they encounter.

2.73. We also expect suppliers to adopt the same processes for non-domestics around rapid reconnection and compensation that we have called for under our domestic proposals (see paragraph 2.53). If suppliers do not implement such measures to address wrongful disconnections on a voluntary basis we will consider whether changes

to the supply licences or the gas and electricity guaranteed standards are needed. In the meantime we expect suppliers to ensure they have processes in place to ensure this functionality is appropriately used and that there are appropriate contractual arrangements to deal with any issues. If there are problems which suppliers do not resolve satisfactorily the Ombudsman has the ability to award compensation to micro-businesses.

Question 12: Are there any protections that should be considered regarding disconnection and prepayment for non-domestic customers? If so, what are these? Please provide evidence to support your views.

3. Privacy

In Ofgem's view the appropriate privacy framework for the mandatory rollout for smart meters is rightly a decision for the Programme and for Ministers.

In the meantime Ofgem will work with the Information Commissioner's Office and using its own consumer protection powers where appropriate to ensure that early movers comply with existing legislation and ensure consumers are clear about their rights and options.

Context

3.1. As acknowledged in the Prospectus, while suppliers are used to handling personal data in accordance with the Data Protection Act 1998 (DPA), smart meters allow for a potential step change in the amount of data that is available about consumers' energy consumption. This has the potential to raise concerns about intrusion of privacy during mandatory rollout which the Programme is currently considering. The Programme proposed in the July 2010 Prospectus the principle, advocated by European energy regulators in their draft Guidelines of Good Practice, that consumers should have the choice over who has access to what data for what purposes except where that data is required for regulatory duties. Further, more detailed work is now being undertaken by the Programme to explore the different uses for which consumption data is required, to confirm what are considered to be regulatory duties in this context and how, for other data, consumer choice should be given effect while ensuring the overall consumer benefits of the Programme are delivered.

3.2. These decisions on who has access to what data and for what purposes for the mandatory rollout are rightly ones for the Minister to take, within the legislative framework and informed by the work of the Programme. These decisions involve balancing the interests of citizens in terms of their rights to privacy with the wider public interests and benefits to be derived from the mandated rollout of smart metering.

3.3. There is also an important role here for the Information Commissioner as enforcer of the DPA. Suppliers and others already have to comply with the DPA in their handling of personal data. They will need to consider carefully their obligations under the DPA as they roll out smart meters. However the Information Commissioner has confirmed that it would be wholly appropriate in due course for the Programme to propose sector specific legislation to clarify what are and what are not legitimate uses of data in a specific energy context, provided this is consistent with the DPA.

Ofgem action on early movers

3.4. Ahead of any new rules being put in place by the Programme, Ofgem has been considering what action, if any, we should take to ensure that consumers' interests are protected where smart meters are currently being installed in advance of the mandated roll out.

3.5. Consumer groups have raised a number of concerns about the lack of transparency in the current arrangements with consumers given little information on what data is

being collected, the uses to which it will be put or the options for consumers if they do not want suppliers to have access to their data.

3.6. As regulator Ofgem has a duty to ensure that consumers' interests are protected, and that the terms and conditions on which they are able to access essential energy services are not unreasonable and that consumers are clear about the options open to them and about their individual rights under the DPA.

3.7. Ahead of the mandated rollout of smart meters, by which time any necessary additional consumer protection rules for data use will be in place, there is no requirement that customers should take smart meters.

3.8. Under general consumer protection legislation (which Ofgem has concurrent powers with the Office of Fair Trading (OFT) to enforce) and the conditions of their supply licences, suppliers have obligations around how any changes to the terms and conditions of their contracts are presented to consumers.

3.9. Under the DPA, all data controllers, including suppliers, have obligations to process data fairly and lawfully. They must only collect and process personal data with the customer's consent or for one of the other legitimate purposes set out in the DPA.

3.10. Ofgem will work with the Information Commissioner and use its own consumer protection and licence enforcement powers as necessary to ensure that suppliers installing smart meters in this early stage of rollout are compliant with this existing legislation.

3.11. Our understanding is that, currently, if a consumer does not wish the supplier to access detailed consumption data then the supplier will typically provide them with a dumb meter. This means that consumers are not able to gain access to the other benefits of smart metering. While it would be preferable for consumers to be able to have a smart meter but choose not to provide access to detailed consumption data, the alternative of offering a dumb meter would seem to be an acceptable solution at this stage.

3.12. The priority for Ofgem prior to the mandatory rollout of smart meters is to ensure that consumers are clear about the implications of taking a smart meter and the options available to them if they do not want to share their data. There are significant benefits to consumers from having smart meters and therefore our assumption is that there is scope for suppliers to promote these benefits and incentivise take-up.

3.13. The Prospectus proposed the principle that consumers should have the choice over who has access to what data and for what purposes, except where data is required for regulatory duties. Ofgem can see the argument that this principle could be fulfilled by a requirement that consumers have to knowingly and positively opt for their data to be used where it is not required in order to fulfil regulatory duties. However, as noted above, more detailed work is still ongoing within the Programme, and we recognise that there may be a case to allow for access to more granular data (e.g. half hourly meter readings) in certain circumstances. Ofgem's priorities in assessing policy options will be to ensure that:

1. Consumers' interests are fully protected

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2. Consumers' right to privacy is respected
 3. Scope for, and competition in, the development of new energy services for consumers is facilitated and
 4. New developments such as those associated with smart grids are supported.

3.14. We will review progress in this area as we come to finalise the Spring Package later this year.

4. Commercial Interoperability

The proposals in this chapter are aimed at ensuring that consumers can continue to switch supplier when they have a smart meter installed without the meter having to be replaced. We are proposing obligations on suppliers to offer terms for use of the meter and potentially also the associated communications equipment depending on the approach taken by the Programme. Given the particular challenge with prepayment we are also proposing that suppliers should not be allowed to install smart meters for use in prepayment mode unless they could be used in that mode by an incoming supplier.

The focus of these proposals is on the immediate issues raised by suppliers who are installing smart meters now. The Programme will continue to consider the wider issues associated with interoperability in the context of a mandated rollout.

Question 13: Do you agree that there should be an obligation on the original supplier to offer terms for use of the meter?

Question 14: Do you have any comments on the requirement for terms to be reasonable and non-discriminatory and factors we would propose to take into account?

Question 15: Do you agree with the proposed obligation that terms should be transparent?

Question 16: Do you have any views on the appropriateness of an obligation to offer terms for use of communications services as part of the Spring Package, and the timeframe for any such obligation?

Question 17: Do you have any comments on our proposed approach for dealing with prepayment?

Question 18: Do you believe there should be a de minimis threshold before commercial interoperability obligations apply and if so, at what level should it be set?

Context

4.1. One of the important consumer protection issues identified in the Prospectus is the need to ensure that consumers who have had a smart meter installed can switch supplier without needing to have their meter replaced again. This is important for Ofgem against the backdrop of its duties to protect consumer interests, wherever appropriate by promoting effective competition.

4.2. The ability for one supplier to use the metering system installed by another supplier is known as "interoperability". This has two aspects:

- Commercial interoperability whereby suppliers make commercial arrangements for use of the equipment and
- Technical operability whereby the new supplier is able, technically, to make full use of all the relevant features of the metering system including communication.

4.3. The Prospectus set out proposals for a common functional specification and sought views on how to develop these into common technical specifications for the meter and associated equipment which it identified as key to achieving full technical interoperability. Moreover one of the reasons given in the Prospectus for having a central data and communications function (DCC) was to ease interoperability by ensuring a common infrastructure for communications that would be used by all suppliers.

4.4. However, ahead of the full implementation of the smart metering regulatory framework and with a growing number of smart meters being installed by early movers Ofgem is concerned that consumers' interests remain protected and that consumers can continue to switch supplier. The Prospectus therefore identified commercial interoperability as one of the potential issues that could be addressed in the Spring Package.

4.5. The focus of the proposals here is on early movers and in particular the period before any Programme proposals come into effect. Our aim has been to identify core protections that we consider are necessary whatever approach the Programme takes. However it remains open to the Programme to build on or replace these protections going forward in the context of the mandated rollout.

4.6. In the short run we consider it acceptable if a smart meter has to revert to operating in dumb mode on change of supplier. In a competitive market suppliers who move early with smart metering offerings can expect to gain some advantage as they might from any other innovation that improves service for customers. However it is important that customers are not locked in and remain free to change supplier if they are willing to sacrifice that additional functionality for a lower price for example.

4.7. However going forwards as smart metering offerings become more common then customers will rightly expect that they can switch supplier and retain their smart functionality.

4.8. While the Programme is looking at the wider issues around interoperability Ofgem has been considering any immediate commercial barriers to interoperability and the case for high level obligations on suppliers to ensure that meters can be re-used on change of supplier, in dumb mode initially if necessary. Ofgem considered a number of these issues in its Review of Metering Arrangements (ROMA) which drew on experience of metering competition to date. Our proposals from ROMA on future metering arrangements were published in December¹⁴, and are currently subject to consultation. These included:

- encouragement to industry to improve information and data flows to enhance the change of supplier process
- a non-discriminatory obligation on certain suppliers to offer smart metering services on cost reflective terms to other suppliers (to address concerns about increased vertical integration)

¹⁴ "Review of Metering Arrangements – Initial Findings and consultation on proposed metering industry remedies" December 2010 Ref 162/10:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=ROMA%20Consultation%20Document.pdf&refer=Markets/RetMkts/Metrng/Comp>

- retention of metering price controls on all (dumb) gas meters.

4.9. This consultation builds on the ROMA work and takes account of relevant responses to the Prospectus on this issue. It considers in particular the issues with commercial interoperability as suppliers start to roll out meters with smart functionality and ahead of any protections the Programme might put in place.

4.10. One particular challenge that arises in the context of smart metering concerns prepayment. A smart meter that is being used in prepayment mode cannot readily be used on change of supplier without a communications link. This is because with smart meters there is no card or key – top up is done remotely over the communications link. This is discussed further below.

4.11. This chapter considers in turn:

- The barriers to commercial interoperability
- Ofgem’s proposals around an obligation to offer terms
- Ofgem’s proposals for dealing with prepayment
- The scope of any obligations (small meter numbers, non-domestics, duration) and
- Next steps and links with the Programme.

Barriers to commercial interoperability

4.12. In the ROMA consultation we sought views on what stakeholders saw as the main barriers to commercial interoperability. The issues have also been considered in the DCG sub-group looking at interim interoperability.

4.13. One of the key issues raised by a number of suppliers was the range of different approaches taken by meter operators to the structure of charges. In some cases installation charges are recovered up front while in others they are amortised. There are also a range of approaches to the length of time over which charges are recovered and the level and basis for any termination charges. In particular there were concerns about termination charges being levied if meters were removed as they subsequently proved to be non-compliant. These risks and uncertainties made suppliers reluctant to sign contracts to take on these meters on change of supplier.

4.14. Some small suppliers also raised concerns about their ability to access metering services in the face of a growing trend towards vertical integration. For all suppliers the inclusion of communications services in the mix adds to the complexity with the need also, potentially, to have access to the outgoing supplier’s “head ends” (which translate the messages sent by the meter) or to develop multiple head-ends to support multiple meter types that may emerge in the market.

4.15. There was also a concern from those suppliers moving early or considering investing that their investments could be stranded.

4.16. The particular challenges presented by prepayment have been identified by a number of suppliers and also by consumer groups concerned that this particular group of consumers might lose out in terms of their ability to switch supplier.

Ofgem's proposals around an obligation to offer terms

Terms for use of the meter

4.17. In order to ensure that the incoming supplier can have the option to use the meter and the customer does not have to have another meter change we are proposing to introduce a new licence obligation on suppliers installing meters with smart functionality to offer – or arrange for their agent to offer - terms for use of the meter on change of supplier. These terms would be required to be reasonable in all the circumstances of the case and non-discriminatory.

4.18. In considering whether there is a need for a licence obligation requiring suppliers to offer terms for use of the meter we have considered whether normal commercial incentives would drive this to happen anyway. The original supplier (or its agent) will not want the meter to be removed leaving their investment stranded. Equally the new supplier will not want to put their customer through the inconvenience of a further meter change. However the evidence collected through ROMA in the context of traditional meters is that this process is not necessarily smooth and with the number of smart meters being installed and the higher value of these meters the risks are greater. We therefore consider that there is a need for a licence obligation to facilitate this process and protect consumers' interests.

4.19. We have also considered whether it is appropriate to place obligations on suppliers as to the terms their metering agents should offer. The alternative of placing obligations directly on the metering agents is however not practical as they are not licensed. In Ofgem's view it is appropriate to place the obligation on suppliers and expect them to then negotiate with their metering agents (as part of the initial contract) to offer equivalent terms to other suppliers on change of supplier.

4.20. A further aspect we have considered is whether on change of supplier this obligation should remain with the original supplier who installed the meter or pass on to the incoming supplier who may have less leverage with the metering agent to require terms for a subsequent change of supplier. Our preliminary view is that the obligation should sit with the supplier that installed the meter as they are in the best position to exert influence over the metering agent. However, this may have implications for the data flows needed on change of supplier which may mean it is not practical in the short term. We would welcome views on this point.

Question 13: Do you agree that there should be an obligation on the original supplier to offer terms for use of the meter?

4.21. In placing an obligation on suppliers to offer reasonable and non-discriminatory terms Ofgem is concerned not to get involved in determining a large number of individual disputes. We would welcome views as to whether there is scope for suppliers to put in place dispute resolution mechanisms for dealing with individual issues while recognising that Ofgem would have to retain responsibility for enforcement of the licence obligation should it be satisfied there was a breach and that an investigation was

warranted in line with the criteria for opening an investigation set out in its *Enforcement Guidelines on Complaints and Investigations*.

4.22. To provide clarity to suppliers Ofgem intends to issue guidance on how it would interpret reasonable and non-discriminatory in this context. We set out below our initial thoughts on the sorts of factors we would take into account on which we would welcome views:

- Ahead of any technical specification being confirmed our view, consistent with the position set out previously in the Prospectus, is that suppliers who decide to install smart meters early do so at their own risk. In the context of commercial interoperability this means that they should bear the risk of meters being non-compliant and on change of supplier they (*or their agents*) *should not initially expect to recover* more than the costs for a dumb meter
- Beyond this very initial period the view of what would be considered reasonable will depend on the nature of any obligation placed on suppliers through the Programme. In developing our guidance we will therefore take into account the forthcoming government response to the Prospectus.
- In requiring terms to be non-discriminatory we would consider whether any differences in charges could be objectively justified. It is thus acknowledged that there may be some element of volume related charging where this reflects genuine differences in the costs of serving suppliers with differing size portfolios.

Question 14: Do you have any comments on the requirement for terms to be reasonable and non-discriminatory and factors we would propose to take into account?

Common structure of charges – transparency

4.23. As noted above one of the key issues raised by suppliers was the range of different structures of charges offered by different metering providers. This means that when acquiring a new customer the incoming supplier does not know what charges they will face. To address this, a number of suppliers have advocated a common scheme of charges.

4.24. As discussed in the ROMA document we recognise the issue but are concerned that intervening in the market to prescribe a particular structure of charges brings other risks and may have unintended consequences. However as set out in the ROMA document we welcome industry developments to improve data and information flows associated with contractual arrangements.

4.25. In ROMA, for dumb meters, no additional regulation was proposed to address this issue. However, in the context of smart metering, given the greater uncertainty involved, we are proposing as part of the Spring Package that the charges offered by the original supplier or its agent for metering services should be transparent. This does not necessarily mean that the terms have to be published but they should be available on request and it should be clear to an incoming supplier what the charges will be for a particular meter. This would involve also being clear about any associated liabilities or warranties.

4.26. Moreover the proposal set out above for the charges to be reasonable in all the circumstances of the case should help address some of the concerns about potentially unjustified termination charges which the incoming supplier could face.

Question 15: Do you agree with the proposed obligation that terms should be transparent?

Terms for use of the communications and associated services

4.27. In order for the customer to be able to benefit from the full functionality of the smart meter the incoming supplier has to be able to utilise not only the meter but also the communication link from the meter.

4.28. Our view is therefore that similar principles should apply in relation to the communications links and associated services (including, if necessary, the "head ends" that translate the messages from the meter). This would mean that the supplier should have an obligation to offer – or arrange for its agent to offer – terms for the use of these services where requested to do so. Again the requirement would be for these services to be offered on reasonable and non-discriminatory terms. In the context of communication services our initial view is that this would essentially mean charges should be cost reflective.

4.29. Our assumption, based on discussions with suppliers, is that until any technical specification (including any specification for the communications services) is confirmed, the incoming supplier is unlikely to be able to use the meter in smart mode. This is because they will have to build their own back office systems to interface with the new data flows and will only want to do that once there is sufficient certainty about any technical requirements.

4.30. Given this, there is a question as to whether it is appropriate to introduce such an obligation as part of the Spring Package. To inform this we would welcome views as to whether it is technically feasible for suppliers who are currently rolling out smart meters to offer these services and make arrangements on a bilateral basis if requested. In reaching a final decision on this issue we will take into account the forthcoming government response to the Prospectus.

Question 16: Do you have any views on the appropriateness of an obligation to offer terms for use of communications services as part of the Spring Package, and the timeframe for any such obligation?

Ofgem's proposals for dealing with prepayment

4.31. As noted above, one of the immediate challenges is that without a communications solution in place smart meters cannot readily operate in dumb prepayment mode on change of supplier. This is because there is no way for the meter to be topped up as there will no longer be any physical means (key, card etc) to do this – in smart mode the top-up message will be sent over the communications link. Moreover even with the communications link in place suppliers have highlighted the added complexity involved in getting prepayment functionality to work on change of supplier (because of eg links with the payment systems and the need for secure codes to be produced for each transaction).

4.32. The Programme is considering the wider issues associated with prepayment interoperability but in the meantime there are concerns that as suppliers start to rollout smart meters on a commercial basis these customers will be locked in to a particular supplier unless they have another meter change or move away from prepayment which many would not want or could not do.

4.33. We therefore propose making it an obligation that suppliers installing smart meters for use in prepayment mode or where there is a reasonable prospect it will be used in prepayment mode, must have arrangements in place to enable the incoming supplier to use the meter in prepayment mode. The supplier would then be able to decide how they discharged that obligation:

- They could provide a service on an agency basis to the incoming supplier to deal with top-up over the communications link that they have in place or arrange for novation of existing communications contracts (where the contracts they have negotiated allow for that)
- They could ensure that the meter has functionality to allow for manual top-up as routine. The proposed functional specification for smart meters would require that the meter can be topped up when the communications link is unavailable. However the current assumption is that this would be relatively rare and hence fairly clunky solutions are being considered (eg use of two keys to scroll through and enter a 20 digit number). Such solutions would not be acceptable for routine top-up but other solutions (such as the use of a key pad) might be or
- They could decide not to use smart meters for prepayment customers until the central data and communications body (DCC) is available.

4.34. To be able to meet its own obligations in relation to prepayment the incoming supplier must be able to offer the service on a basis that is "safe and reasonably practicable". The original supplier would therefore need to ensure that the arrangements it puts in place enable the incoming supplier to meet these requirements, including the need for data security.

4.35. We do not propose to specify which route suppliers should follow to meet their obligations but to focus on the outcome that we want which is that consumers can continue to switch supplier and still be able to use prepayment. However we recognise that there are benefits to PPM customers being included in the early stages of rollout. The programme has therefore been looking at these issues and we would encourage suppliers to continue to explore potential solutions.

4.36. Given suppliers have an obligation (under SLC27 of their supply licence) to offer prepayment on request or where a customer is struggling to pay it would not, in our view, be appropriate to preclude all use of prepayment on smart meters. Our proposal is therefore that suppliers should be prevented from installing a smart meter for use in prepayment mode either straight away or where there is a reasonable prospect it will be used in prepayment mode, unless the customer can use that meter in prepayment mode on change of supplier.

4.37. However should a customer who has a smart meter operating in credit mode get into payment difficulties subsequently, our proposal is that suppliers should be able to switch the meter from credit to prepayment mode in order to comply with their obligations to provide a prepayment meter rather than having to replace the smart

meter with a dumb prepayment meter. We recognise that this may mean that such customers would have to have a meter change subsequently if they wanted to switch supplier and remain on prepayment. However on balance our view is that this is more cost effective and less disruptive to consumers than precluding all use of prepayment on smart meters. As part of our regular monitoring of debt and disconnection we will monitor the extent to which smart prepay is being utilised in this way ahead of interoperability arrangements being put in place.

4.38. We have also considered whether the requirement for the incoming supplier to be able to offer prepayment means that other suppliers have to actually offer prepayment services. Our initial view is that the requirement on the original supplier should be to take the steps to enable prepayment to be offered – it cannot be held responsible for whether other suppliers are prepared to make the necessary early investment to actually offer these services. However this may mean in practice that these consumers would still need to have a meter change to change supplier. We would welcome views on this point.

Question 17: Do you have any comments on our proposed approach for dealing with prepayment?

Scope of Obligations

Small meter numbers

4.39. We recognise that an obligation to offer terms for metering services and make arrangements around PPM interoperability could place an undue burden on suppliers with small numbers of smart meters. We are aware that there are a number of small suppliers who offer smart meters as a core part of their business proposition and also that a number of suppliers have participated in trials such as Energy Demand Research Project (EDRP) where interoperability was not a key consideration.

4.40. We are therefore considering whether there should be a de minimis threshold below which the obligations around commercial interoperability do not apply. We recognise that this might leave some customers facing greater barriers in terms of switching but consider this could be justified by the benefits in terms of encouraging competition and innovation.

4.41. If we were to adopt such an approach we would need to set the threshold at an appropriate level, which could be on the basis of a certain number of smart meters per fuel per supplier. We would welcome evidence on likely levels of installation for trials and by small suppliers to help inform our view as to a reasonable level for any threshold.

Question 18: Do you believe there should be a de minimis threshold before commercial interoperability obligations apply and if so, at what level should it be set?

Non-domestic customers

4.42. The situation for non-domestic customers is made more complicated by the range of different metering installations which have some level of communications capability and are considered to be “advanced meters”.

4.43. Whether there should be any obligations around commercial interoperability for smaller non-domestic customers will depend on the Programme's conclusions around any technical specification. We therefore do not intend to put forward licence obligations covering commercial interoperability for non-domestic customers at this stage but may revisit this issue following publication of the Prospectus response.

4.44. In the meantime we will continue to work with existing industry fora to promote interoperability across the range of advanced metering solutions.

Duration

4.45. As set out above, our aim in introducing licence changes at this stage under Ofgem's powers is to ensure that consumers are protected in the immediate short term as suppliers start to roll out smart meters on a commercial basis. It remains open to the Programme to develop, revoke or replace these obligations as its proposals develop.

Next steps and links with the Programme

4.46. As with other elements of the Spring Package we are seeking comments on our proposals by 13 April 2011.

4.47. In developing these proposals we have sought to make them independent of any solutions that may be adopted by the Programme for dealing with the interim or foundation stage. The aim of the Spring Package is to ensure that consumers are offered basic protection as soon as possible given the numbers of smart meters currently being installed.

4.48. In considering the final forms of any licence obligations in this area we will take account of the forthcoming response to the Prospectus consultation.

5. Other Elements of Consumer Protection

Consumer concerns about sales and marketing at the point of installation are being taken forward by the Programme. Suppliers are working on a code of practice that will cover this issue.

Tariff complexity resulting from time of use tariffs is not an immediate issue but will be kept under review. The wider issues of tariff complexity are being considered as part of the Retail Market Review.

Context

5.1. In the Prospectus supporting document on Consumer Protection Ofgem set out initial views on a number of elements of consumer protection and sought views on whether there were other issues that needed to be addressed.

5.2. Consumer groups in their responses to the consultation highlighted in particular concerns around sales and marketing at the point of installation and tariff complexity which they believed should be addressed in the Spring Package. These issues are considered further below.

5.3. Other issues raised in responses and through discussions with our Consumer Advisory Group included:

- Standards for in-home displays (IHDs) and provision of appropriate advice
- Back-billing (where Ofgem are separately looking at suppliers' compliance with commitments given previously)
- The importance of no upfront charging.

5.4. In deciding whether to take action in any of these areas Ofgem has taken account of the extent to which there are short terms risks to consumer interests through early movers or whether the issues can either be left to the Programme to resolve or addressed on a longer timescale.

5.5. At this stage Ofgem cannot see a case for additional licence obligations in the short term to address any of these other elements. However Ofgem will continue to monitor closely the way the market is developing and will work with consumer groups to ensure it has early visibility of any issues that may arise. If any such issues cannot be tackled under existing legislation then Ofgem will move quickly to put new protections in place to ensure that consumers' interests remain protected and that consumers' confidence in the market and in smart meters is maintained.

Sales and Marketing at Point of Installation

5.6. The Prospectus identified the potential consumer concerns around sales and marketing at the point of installation. In particular it said that the Programme wished to ensure that the installation visit was not used for unwelcome sales activities and sought

views on what might be considered acceptable and unacceptable uses of the installation visit. It also proposed that industry would be required to develop an installation code of practice, underpinned by licence conditions. This would help provide consistent messages for customers about what to expect and to ensure certain standards are maintained. It was proposed that rules around sales and marketing activities during the installation visit might be included in such a code.

5.7. Since then the Programme has been undertaking further work to consider its approach to unwelcome sales activity. In parallel the ERA on behalf of larger suppliers has been developing their version of a code of practice on their own initiative. Consumer groups have also been working on their own view of what a code should cover.

5.8. Ofgem welcomes the progress that is being made in this area.

5.9. In the meantime Ofgem is not persuaded that there are urgent issues that need addressing. Furthermore, Ofgem already has powers under existing consumer protection legislation and through the marketing licence condition to tackle certain forms of behaviour should it arise. In particular the marketing licence condition now requires suppliers to take all reasonable steps to ensure that their marketing activity in respect of new domestic supply contracts is conducted in a fair, transparent, appropriate and professional manner. While the marketing licence condition only covers the sale of energy and new tariff offerings, wider consumer protection legislation banning misleading and aggressive commercial practices, enforceable by OFT, Trading Standards and Ofgem, covers the marketing and sale of other products and services.

5.10. At this stage Ofgem does not propose to introduce any new requirements to deal with sales and marketing as part of the Spring Package.

Tariff complexity

5.11. Another issue raised by consumer groups is the potential for greater tariff complexity to be introduced with "time-of-use" tariffs. Given the evidence that some consumers already find tariffs confusing the concern is that the introduction of time of use tariffs could further exacerbate the situation and that consumers will not be able to make an informed choice about the range of offers available.

5.12. Smart meters clearly offer the potential for more sophisticated time-of-use tariffs which can play an important role in incentivising customers to reduce consumption at peak times helping ensure security of supply, reducing the costs of meeting peak demand and potentially also reducing the need for network investment. While in some countries time-of-use tariffs have been introduced across the board, the competitive market in this country means that customers have a choice whether or not to take a time-of-use tariff. At this stage no suppliers are offering time-of-use tariffs other than as part of very limited trials and hence there does not seem to be an urgent need to address this issue and it is not yet clear what the precise concerns would be.

5.13. That said Ofgem is aware of the wider concerns about tariff complexity and the importance of consumers being able to exercise effective choice. As part of the Probe remedies the marketing licence condition was strengthened to require suppliers to provide a written estimate of the annual charges based on the consumer's annual energy use. Where suppliers are making claims about the savings to be gained from a time-of-use tariff we would expect this to be based on the consumer's consumption pattern in

different periods. In addition, the standards of conduct set out following the Probe include:

“Suppliers must not sell a customer a product or service that he or she does not fully understand or that is inappropriate for their needs and circumstances” and

“Suppliers must not offer products that are unnecessarily complex or confusing.”

5.14. In December Ofgem announced that it was carrying out a follow-up Retail Market Review to look, among other things, at how effective the Probe remedies have been. As a part of that work the question of tariff complexity will be revisited.

5.15. At this stage therefore Ofgem does not propose to introduce any new requirements as part of the Spring Package but will look to keep this issue under review.

5.16. One specific issue raised by consumer groups is the distributional effects that time-of-use tariffs would have. Work by the Brattle Group in America¹⁵ has concluded that low income customers tend to benefit more than average from time-of-use tariffs but no work has been done in a UK context. Anecdotal feedback from suppliers is that low income customers on average tend to have flatter usage profiles and hence would benefit from time-of-use tariffs. This seems intuitive for, for example elderly customers who are at home all day but there may be other groups (such as single parents) where this would not apply. Ofgem intends to carry out further work in the coming year to understand the distributional effects – both in terms of the different usage profiles of different customer groups and their ability to change their pattern of usage (eg to use particular appliances during the evening rather than at peak times). This will then allow us to take a more informed view of any additional protections that might be needed in the future.

¹⁵ Sustainability First report – Smart tariffs and household demand response for GB:
<http://www.sustainabilityfirst.org.uk/docs/2010/Sustainability%20First%20-%20Smart%20Tariffs%20and%20Household%20Demand%20Response%20for%20Great%20Britain%20-%20Final%20-%20March%202010.pdf>

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Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 13 April 2011 and should be sent to:

Liz Chester
Social Policy Manager
9 Millbank
London
SW1P 3GE
020 7901 7403
liz.chester@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website (www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: having considered the responses to this consultation, Ofgem intends to issue a statutory consultation on its proposed licence amendments. We will then look to have the new licence conditions in place by the end of the summer. Any questions on this document should, in the first instance, be directed to Liz Chester (contact details above).

CHAPTER 2

Question 1: Do you agree with our proposal to issue guidance on safe and reasonably practicable and require suppliers to have regard to this guidance through a licence amendment? If not, what else is needed?

Question 2: Do you agree with our proposal to require suppliers, where they know or have reason to believe that prepayment is no longer safe and reasonably practicable for a customer, to offer an alternative payment method or some other form of action?

Question 3: Do you have any comments on our proposed guidance regarding taking into account whether it is safe and reasonably practicable for a customer to pay by prepayment?

Question 4: Do you agree with our view that the current notification periods for switching to a prepayment meter are sufficient?

Question 5: Do you agree with our proposal to require suppliers to give customers information on using a prepayment meter ahead of switching them to prepayment?

Question 6: Do you consider it necessary to explicitly require suppliers to provide the ability to top-up by cash where payment is made through a prepayment meter?

Question 7: Do you agree with our proposal to issue guidance on identifying vulnerability prior to disconnection and require suppliers to have regard to this guidance through a licence amendment? If not, what else is needed?

Question 8: Do you have any comments on our proposed guidance regarding identifying vulnerability prior to disconnection?

Question 9: Do you agree that suppliers should ensure rapid reconnection and provide compensation on a voluntary basis where customers have been disconnected in error?

Question 10: Do you agree with our view that the current notification periods for disconnection are sufficient?

Question 11: Do you agree with our proposal to explicitly set out in the supply licences that load limiting and credit limiting amount to disconnection in certain circumstances?

Question 12: Are there any protections that should be considered regarding disconnection and prepayment for non-domestic customers? If so, what are these? Please provide evidence to support your views.

CHAPTER 4

Question 13: Do you agree that there should be an obligation on the original supplier to offer terms for use of the meter?

Question 14: Do you have any comments on the requirement for terms to be reasonable and non-discriminatory and factors we would propose to take into account?

Question 15: Do you agree with the proposed obligation that terms should be transparent?

Question 16: Do you agree with our proposed approach around an obligation to offer terms for use of communications services as part of the Spring Package, and the timeframe for any such obligation?

Question 17: Do you have any comments on our proposed approach for dealing with prepayment?

Question 18: Do you believe there should be a de minimis threshold before commercial interoperability obligations apply and if so, at what level should it be set?

Appendix 2 – Proposed amendments to the standard conditions of electricity and gas supply licences

The following sets out the proposed amendments to the gas and electricity supply licence conditions with regard to prepayment meters and disconnection. Provisions on load limiting will only be included in the Electricity Standard Licence Conditions.

Proposed amendments

1. In condition 1:

(a) after the definition of "Customer" insert:

"Credit Management" means the practice by which the licensee places a limit on the amount by which the total amount of Charges for the Supply of Gas/Electricity which is due and payable by a Domestic Customer to the licensee under a Domestic Supply Contract may exceed the payments made by that Domestic Customer to the licensee under or in accordance with the relevant Domestic Supply Contract.

(b) after the definition of "Last Resort Supply Payment" insert:

"Load Limiting" means the practice by which the licensee limits the level of current supplied to a Domestic Premises in accordance with a Domestic Supply Contract.

(c) after the definition of "Pensionable Age" insert:

"Prepayment Meter" includes any Electricity/Gas Meter operating in a mode which allows a Domestic Customer to pay Charges for the Supply of Electricity/Gas in advance through that meter, and references to the installation or removal of a Prepayment Meter includes the switching of any Electricity/Gas Meter to or from a mode which allows a Domestic Customer to pay Charges for the Supply of Electricity/Gas in advance through that meter;

(d) after paragraph (b) in the definition of "Principal Terms" insert:

(ba) in relation to a Domestic Supply Contract, any Credit Management which applies, including the maximum amount by which the payments made by the Domestic Customer may fall short of the total amount of Charges for the Supply of Gas/Electricity which is due and payable by that Domestic Customer;

(bb) in relation to a Domestic Supply Contract, any Load Limiting which applies, including the limit to the level of current supplied;

2. In each case where it occurs for "prepayment meter" substitute "Prepayment Meter".

3. In condition 27.1(a)(i), after "case" insert ", including circumstances where a Domestic Customer pays in advance using a Prepayment Meter,".

4. After condition 27.9 insert:

"27.9A For the purposes of conditions 27.9, 27.10, 27.11 and 27.11A, Disconnection includes:

(a) Credit Management where:

- (i) it amounts to stopping the supply to the Domestic Premises; and
- (ii) the Domestic Customer does not pay Charges for the Supply of Gas/Electricity by using a Prepayment Meter; and

(b) Load Limiting where:

- (i) the supply to the Domestic Premises is significantly constrained; and
- (ii) the Domestic Customer does not pay Charges for the Supply of Electricity by using a Prepayment Meter or, where the Domestic Customer pays using a Prepayment Meter, that meter remains for the time being, in credit."

5. After condition 27.11A insert:

"27.11B The licensee must have regard to guidance on the interpretation of conditions 27.9A to 27.11A which the Authority may issue and may from time to time revise.

6. In condition 27.12(a) for "27.11" substitute "27.11A".

7. In condition 28.1:

after "provide", insert ", prior to the installation of that meter,"; and

after paragraph (a) insert:

"(aa) information relating to the operation of the Prepayment Meter, including, information about the process for, and methods by which, the Domestic Customer can pay in advance through the Prepayment Meter;"

8. After condition 28.1 insert:

"Safety and reasonable practicability of Prepayment Meters

28.1A Where a Domestic Customer uses a Prepayment Meter and the licensee becomes aware or has reason to believe that it is no longer safe and reasonably practicable in all the circumstances of the case for the Domestic Customer to do so, the licensee must offer:

- (i) to alter the position of, or replace with one which has been specially adapted, the Prepayment Meter installed in the Domestic Premises, either in accordance with its obligations under Schedule 2B (Gas Code)/ Schedule 6 (Electricity Code) or otherwise, if it would make it safe and reasonably practicable in all the circumstances of the case, for the Domestic Customer to continue to use the Prepayment Meter;
- (ii) to make such other arrangements as are necessary to ensure that it would be safe and reasonably practicable in all the circumstances of the case, for the Domestic Customer to continue to use the Prepayment Meter; or

(iii) a facility for the Domestic Customer to pay Charges for the Supply of Gas/Electricity through a means other than a prepayment meter, including, where condition 27.5 applies, the services referred to in condition 27.6(a)(i) and (ii).

28.1B The licensee must have regard to guidance on the interpretation of "safe and reasonably practicable in all the circumstances of the case", which the Authority may issue, and may from time to time revise."

Appendix 3 – Draft guidance: prepayment only where safe and reasonably practicable

1.1. As explained in paragraph 2.19 we are proposing to require suppliers, through a licence amendment, to have regard to guidance issued by the Authority on the interpretation of “safe and reasonably practicable in all the circumstances of the case” when providing a Prepayment Meter. The following is a draft of that guidance.

1.2. Comments on the guidance are encouraged in response to question 3.

DRAFT GUIDANCE

This guidance applies in circumstances where the supplier offers a Prepayment Meter to a customer struggling to pay and where the supplier becomes aware or has reason to believe that it is no longer safe and reasonably practicable for the customer to use a Prepayment Meter.

This guidance is not intended to be exhaustive and it is ultimately for suppliers to determine the steps they need to take to meet their supply licence conditions.

What is safe and reasonably practicable should be considered from the Domestic Customer’s perspective. Relevant factors are likely to include:

- whether the customer is able to understand and operate the Prepayment Meter and visit top-up points to add more credit. (For example, whether the customer has a physical or mental disability that prevents them from being able to appropriately use a Prepayment Meter.)
- whether the customer lives in a rural area at quite a distance from any top-up outlets. What constitutes ‘quite a distance’ is likely to vary depending on the customer’s circumstances. (For example, it may not be reasonably practicable to provide a Prepayment Meter if a Domestic Customer needs to travel over two miles to top up the credit and does not have a car.)
- whether the customer requires a continuous supply for health reasons, such as dependency on medical equipment requiring an electricity supply
- whether the Prepayment Meter is situated in a position (such as high on a wall) that means the customer could not operate the Prepayment Meter
- whether the Prepayment Meter would have to be situated outside or in a room to which the household does not have continuous access
- in accordance with any advice received from the Health and Safety Executive (HSE). (For example we are aware of advice from the HSE that it may not be safe for a Prepayment Meter to be installed in an in-take room).

Many of these circumstances may be addressed by technological innovations, particularly where a smart meter is installed, or some other form of initiative. For example, if the customer has a bank account and a telephone or internet access, then a Prepayment Meter that provides for top-up over the internet or telephone could still be reasonably practicable for the customer, even if top-up outlets are some distance from where the customer lives. It is also possible that adults, other than the customer, living in the premises may be in a position to understand and operate the Prepayment Meter.

Another example would be if the IHD or some additional device allowed all the necessary features of a prepayment meter to be accessed by the customer even if the meter itself were not accessible. This would need to include the ability to re-enable supply if the prepayment arrangements in place with that customer allowed for the possibility of them self-disconnecting.

Suppliers should also consider their obligation not to disconnect unless they have first taken all reasonable steps to recover charges through a Prepayment Meter. Given this requirement, in some circumstances, it may be necessary for the supplier to consider additional measures to ensure it is safe and reasonably practicable for the customer to use the Prepayment Meter where the alternative is disconnection.

What is safe and reasonably practicable can also be considered from the supplier's perspective. However, there are likely to be limited circumstances where we considered it was not safe and reasonably practicable from the supplier's perspective, particularly where the alternative for the customer is disconnection. An example of such a circumstance may be where the customer has had a history of theft of gas or electricity or meter tampering.

Identification of customers' circumstances

The sort of proactive steps that we would generally expect suppliers to follow in order to identify whether it was safe and reasonably practicable in all the circumstances of the case to offer a Prepayment Meter to a customer struggling to pay include:

- recording the location of the meter when installed or inspected
- proactively seeking to ensure that all eligible customers are offered the opportunity to be registered on the Priority Services Register
- reviewing all the notes on the customer's accounts to ensure that no vulnerability which would mean it was not safe and reasonably practicable for the customer to have a Prepayment Meter is recorded
- making multiple attempts to contact the customer by various means and at various times of day to discuss the option of paying through a Prepayment Meter
- where a discussion with the customer had not been possible or, following discussion, there was still uncertainty about whether it would be safe and reasonably practicable for the customer to pay through a Prepayment Meter, the supplier must visit the customer at their premises, with visits attempted at various times of day
- checking whether there has been a change of occupancy to make sure that customers are not put on a Prepayment Meter in error
- obtaining senior management authorisation prior to moving a customer to a Prepayment Meter.

Post installation of a Prepayment Meter

The sort of proactive steps that we would generally expect suppliers to follow after putting a customer on a Prepayment Meter in order to ensure it is safe and reasonably practicable for the customer includes:

- checking with the customer that they are able to afford any debt repayment level set on the Prepayment Meter

-
- monitoring whether the customer is topping-up
 - where the customer is not topping-up regularly or top-ups are very low, making multiple attempts to contact the customer by various means and at various times of day to understand the reasons for this.

Appendix 4 - Draft guidance: identifying the status of customers prior to disconnection

1.1. As explained in paragraph 2.48 we are proposing to require suppliers, through a licence amendment, to have regard to guidance issued by the Authority on what may constitute reasonable steps to identify the status of customers and occupants prior to disconnection. The following is a draft of that guidance.

1.2. Comments on the guidance are encouraged in response to question 8.

DRAFT GUIDANCE

This guidance applies with regard to taking all reasonable steps to ascertain whether the domestic customer or occupants of affected premises are of pensionable age, disabled or chronically sick prior to disconnection.

This guidance is not intended to be exhaustive and it is ultimately for suppliers to determine the steps they need to take to meet their supply licence conditions.

The sort of proactive steps that we would generally expect suppliers to take to identify the status of customers and occupants include:

- proactively seeking to ensure that all eligible customers are offered the opportunity to be registered on the Priority Services Register
- reviewing all the notes on the customer's accounts to ensure that no vulnerability is recorded, with regard to the customer or occupants at the premises
- reviewing written contact with customers struggling to pay to ensure that it is in plain English and that information is available in other languages where appropriate and that the customer is encouraged to ask for help
- making multiple attempts to contact the customer by various means and at various times of day
- undertaking personal visits to the property which is at risk of being disconnected at various times of day and completing a visual check of the premises looking for signs of vulnerability of the customer or occupants at the premises (for example using the good practice vulnerability checklist compiled by Consumer Focus)
- checking whether a property is temporarily or permanently unoccupied
- checking whether there has been a change of occupancy to make sure that customers are not disconnected in error
- obtaining senior management authorisation prior to any disconnection being carried out.

Appendix 5 – The Authority’s Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute (such as the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Acts of 2004, 2008 and 2010) as well as arising from directly effective European Community legislation.

1.3. References to the Gas Act and the Electricity Act in this appendix are to Part 1 of those Acts.¹⁶ Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This appendix must be read accordingly.¹⁷

1.4. The Authority’s principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.

1.5. The Authority is generally required to carry out its functions in the manner it considers is best calculated to further the principal objective, wherever appropriate by promoting effective competition between persons engaged in, or commercial activities connected with:

- the shipping, transportation or supply of gas conveyed through pipes
- the generation, transmission, distribution or supply of electricity
- the provision or use of electricity interconnectors.

1.6. Before deciding to carry out its functions in a particular manner with a view to promoting competition, the Authority will have to consider the extent to which the interests of consumers would be protected by that manner of carrying out those functions and whether there is any other manner (whether or not it would promote competition) in which the Authority could carry out those functions which would better protect those interests.

1.7. In performing these duties, the Authority must have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met
- the need to secure that all reasonable demands for electricity are met
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them¹⁸ and

¹⁶ Entitled “Gas Supply” and “Electricity Supply” respectively.

¹⁷ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

-
- the need to contribute to the achievement of sustainable development.

1.8. In performing these duties, the Authority must have regard to the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.¹⁹

1.9. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- promote efficiency and economy on the part of those licensed²⁰ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems
- protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity and
- secure a diverse and viable long-term energy supply, and shall, in carrying out those functions, have regard to the effect on the environment.

1.10. In carrying out these functions the Authority must also have regard to:

- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice and
- certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.11. The Authority may, in carrying out a function under the Gas Act and the Electricity Act, have regard to any interests of consumers in relation to communications services and electronic communications apparatus or to water or sewerage services (within the meaning of the Water Industry Act 1991), which are affected by the carrying out of that function.

1.12. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation²¹ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

¹⁸ Under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Acts in the case of Electricity Act functions.

¹⁹ The Authority may have regard to other descriptions of consumers.

²⁰ Or persons authorised by exemptions to carry on any activity.

²¹ Council Regulation (EC) 1/2003.

Appendix 6 - Glossary

A

Authority

See definition of 'Gas and Electricity Markets Authority (GEMA)'. This is the governing body for Ofgem.

C

Codes

Industry codes establish detailed rules that govern market operation, the terms for connection and access to energy networks. The supply and network licences require the establishment of a number of industry codes that underpin the gas and electricity markets. The electricity codes are: Balancing and Settlement Code (BSC), Connection and Use of System Code (CUSEC), Distribution Code, Grid Code, Master Registration Agreement (MRA), System Operator-Transmission Owner Code (STC), Distribution Connection and Use of System Agreement (DCUSA). The gas codes are the Uniform Network Code (UNC), Independent Gas Transporter (IGT) Network Codes, Supply Point Administration Agreement (SPAA).

Commercial interoperability

The terms on which a new supplier can use the meter and related equipment when a customer changes supplier.

Consumer

Person or organisation using electricity or gas at a meter point.

Consumer Advisory Group (CAG)

The Consumer Advisory Group consists of members from groups representing a broad range of domestic consumers. It was set up to help inform the programme and to promote understanding of key consumer issues, particularly more complex issues that cannot be fully explored through primary consumer research.

Credit

Also referred to as 'credit mode'. This is a payment method which includes where customers pay on receipt of the bill or by direct debit.

Credit limiting

Also known as 'managed credit'. Credit limiting is where customers are automatically cut off if they owe more than a pre-determined amount.

Customer

Any person supplied or entitled to be supplied with electricity or gas by a supplier.

Customer premises equipment

All smart metering equipment in a customer's home or business.

D

Data Communications Company (DCC)

New proposed entity which would be created and licensed to deliver central data and communications activities. DCC would be responsible for managing the procurement and contract management of data and communications services that will underpin the smart metering system.

Department of Energy and Climate Change (DECC)

The Department of Energy and Climate Change (DECC) was created in October 2008, to bring together energy policy and climate change mitigation policy.

'Dumb' meter

A traditional meter which shows how much gas or electricity has been used. These meters are read manually and have no 'smart' functionality.

E

Emergency credit

Credit applied by a supplier when a prepayment meter is out of credit to avoid interruptions to the supply.

Energy Retail Association (ERA)

The Energy Retail Association is a trade association representing the interests of the six major domestic energy supply companies - British Gas, EDF Energy, E.ON, npower, Scottish Power, and Scottish and Southern Energy (SSE).

Energy suppliers

A company licensed by Ofgem to sell energy to, and to bill, customers in Great Britain.

F

Fuel poverty

Households are considered as being in "fuel poverty" if they would have to spend more than 10 per cent of their household income on fuel to keep their home adequately heated.

Functional requirements

The minimum functions that must be supported by the different elements of the smart metering system to ensure the delivery of the benefits of smart metering. Describes what the smart metering system must do (not how it must do so).

G

Gas and Electricity Markets Authority (GEMA)

The Authority is Ofgem's governing body. It consists of non-executive and executive members and a non-executive chair. The Authority determines strategy, sets policy priorities and takes decisions on a range of matters, including price controls and enforcement. The Authority's principal objective is to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998 and the Enterprise Act 2002.

H

Head ends

These translate the messages from different types of meter into a common language that can be understood by all suppliers' systems.

I

In-home display (IHD)

An in-home display is an electronic device, linked to a smart meter, which provides information on a customer's energy consumption.

Interoperability

The ability of diverse systems, devices or organisations to work together (interoperate). See also commercial interoperability and technical interoperability.

L

Licence

Transporting, shipping and supplying gas; and generating, transmitting, distributing and supplying electricity are all licensable activities. Ofgem grants licences that permit parties to carry out these activities in the GB market. The licenses require the establishment of a number of multilateral industry codes that underpin the gas and electricity markets. Licensees need to be signed up as parties to codes in order to operate in the gas and electricity markets (see codes).

Load limiting

Also known as 'trickle disconnection' (see trickle disconnection). Load limiting is where the electricity supply is restricted so that the customer is only able to use limited levels of electricity to cover basic needs such as lighting and the fridge/freezer.

M

Managed credit

See credit limiting.

O[Ofgem](#)

The Office of the Gas and Electricity Markets (Ofgem) is responsible for protecting gas and electricity consumers in Great Britain. We do this by promoting competition, wherever appropriate, and regulating the monopoly companies that run the gas and electricity networks.

[Ofgem E-Serve](#)

Ofgem E-Serve is responsible for Ofgem's support and delivery functions. It focuses on administering environmental programmes and the delivery of sustainability projects such as the Smart Metering Implementation Programme.

P[Prepayment meter \(PPM\)](#)

These are meters that require payment for energy to be made in advance of use or else they will prevent the supply of gas or electricity. A PPM customer pays for energy by inserting electronic tokens, keys or cards into the meter.

[Prepayment Meter Infrastructure Provision \(PPMIP\)](#)

The PPMIP service provides the following facilities for prepayment meters which require tokens, cards or keys for their operation: the purchase by electricity suppliers and/or encoding with data of tokens, cards or keys, the use by domestic customers of local outlets for the purchase of tokens and the crediting with value of cards or keys, the making of payments to electricity suppliers in respect of sums received by the licensee on behalf of domestic customers, and where relevant, the transfer of domestic customer data to electricity suppliers.

[Prepayment mode](#)

Smart meters will be capable of switching between prepayment and credit mode. When operating in prepayment mode customers will have to pay for their energy before using it.

[Price control](#)

Ofgem sets the price controls for all energy transportation businesses. A price control sets the maximum amount of revenue which the parties subject to the control can recover from the users of their networks/services. This aims to balance the need to allow the companies appropriate resources with the need to protect customers' interests.

[Priority Services Register \(PSR\)](#)

The standard licence conditions of the gas and electricity supply licences require suppliers to establish a list (the Priority Services Register) of domestic customers that are of pensionable age, disabled or chronically sick. Eligible customers can ask to be added to their supplier's list. These customers are then eligible for certain free services specified in the supply licences.

[Prospectus](#)

The Prospectus document, published on 27 July 2010, sets out proposals for and asks for views on how electricity and gas smart metering in Great Britain will be delivered, covering both domestic households and small and medium non-domestic sites. The document represents the joint views of the Department of Energy and Climate Change (DECC) and the Gas and Electricity Markets Authority (GEMA).

Programme

The Smart Metering Implementation Programme.

R

Remote disconnection

The technical capabilities of smart meters will allow suppliers to disconnect the electricity or gas supply remotely without physically visiting the premises.

Remote switching between payment methods

The technical capabilities of smart meters will allow suppliers to switch customers from credit to prepayment mode (and back again) remotely without physically visiting the premises or changing the meter.

ROMA

Review of Metering Arrangements.

S

Safety Net

ERA members have signed up to a 'Safety Net for Vulnerable Customers' pledging to never knowingly disconnect a vulnerable customer at any time of year, where for reasons of age, health, disability or severe financial insecurity, that customer is unable to safeguard their personal welfare or the personal welfare of other members of the household. The safety Net is a voluntary code of practice which makes a number of further commitments concerning debt and disconnection.

Smart appliances

An appliance that can alter the way in which it uses energy (consumption level or time of use) in response to changes in the balance between supply and demand, usually in response to a price signal.

Smart meter

In addition to traditional metering functionality (measuring and registering the amount of energy which passes through it), smart meters are capable of two-way communication allowing them to transmit meter reads and receive data remotely.

Standard credit

A payment method where customers pay on receipt of the bill. This typically covers a wide range of payment mechanisms, including cash, cheque, credit card and standing order.

Standard Licence Conditions (SLCs)

These are requirements that all gas and electricity suppliers have to comply with. Under the Gas Act 1986 and Electricity Act 1989, failure to comply with licence conditions can result in financial penalties and/or enforcement orders to ensure compliance.

T

Technical interoperability

The capability of systems or devices to provide and receive services and information between each other, and to use these services and information exchange to operate effectively together in predictable ways without significant user intervention. Within the context of the smart metering system, this means the seamless, end-to-end connectivity of hardware and software from customer premises equipment through to DCC, suppliers, network operators and other authorised parties.

Technical specifications

The technical specifications for the smart metering system will be an explicit set of solutions and guidelines as to how the smart metering system will fulfil the functional requirements.

Time-of-use tariff

Under a time-of-use tariff, a supplier varies its charges based on when energy is used (e.g. day/night; peak/off-peak; or by season). Such tariffs can be dynamic (changes in real time) or static (changes at predictable times).

Trickle disconnection

Restriction of the flow of energy to a home, allowing the consumer to use limited levels of electricity to cover basic needs such as lighting and the fridge/freezer. It is used by suppliers as an alternative to full disconnection in cases of non payment by electricity or gas customers (see load limiting).

Appendix 7 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand; could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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London

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