

**Q3 - Do you have any comments on the proposed approach to ensuring customers have a positive experience of the smart meter rollout (including the required code of practice on installation and preventing unwelcome sales activity and upfront charging)?**

British Gas is delighted that the Government has agreed that energy suppliers must lead the deployment of smart metering. Energy suppliers are best placed to understand customer requirements and engage with them in the delivery of benefits through smart metering. We are committed to taking a leadership role in ensuring a successful deployment of smart meters, delivering benefits to customers and transforming our industry.

It is essential that customers get a positive experience from the introduction of smart metering. The competitive energy supply market provides incentives for energy suppliers to ensure that their customers have a positive experience (a key factor in the British Gas decision to bring its metering operations in house).

British Gas has already developed a Customer Charter that demonstrates our commitment to creating customer confidence in smart meters. We are also supportive of an additional Energy Supplier Code of Practice that covers, for example, the installation process. This will stimulate broader industry wide confidence in smart metering.

We agree that the visit to install smart meters provides a unique opportunity to engage customers on a wide range of potential energy efficiency measures and services that would be of benefit to customers. We also believe that customer confidence must be maintained and not undermined by poor sales practices. We are therefore keen to expand our Customer Charter and to work with industry to develop additional controls that provide improved confidence in this area.

Understanding customer requirements and promoting services on a consultative basis is key to engaging customers in the delivery of the benefits of smart metering. Promoting products and services to consumers during the visit certainly should not be prevented because it provides significant value at minimum risk to consumers. This should be based on need and led by the customer; an expression of no interest should be accepted as an instruction, not a challenge.

We believe that the existing regulatory regime already provides sufficient protection for consumers from undesirable sales practices. Specifically, The Consumer Protection from Unfair Trading Regulations that provides protection for consumers from unfair commercial practices and misleading and aggressive practices. This prohibits commercial practices which by harassment, coercion or undue influence; significantly impair, or are likely to significantly impair, the average consumers freedom of choice or conduct concerning the product; and the average customer takes or, is likely to take, a different decision as a result.

Door step and distance selling regulations provide further protections for consumers. Further, the Association of Energy Suppliers Sales Code provides an example of a self regulatory regime that has been developed to build consumer confidence in this area. However we are happy to work with consumer groups and industry to develop and implement additional controls that are required to protect customers from inappropriate sales activity.

It is important that these additional controls provide the necessary customer protection, but without prohibiting sales activity or introducing restrictions that have a similar effect. For example we are concerned that an opt-in / opt-out scheme could be costly to manage and could undermine the delivery of the IA. With any opt-in / opt-out scheme, the onus must be on customers opting out rather than them opting in. This is consistent with the way that the overwhelming majority of such schemes operate today. Typically fewer than 2% of customers respond to requests for information or action, (unless there

is risk to the continuity of their service) even if there may be some benefit to them.

**Q6 - Do you have any comments on the functional requirements for the smart metering system we have set out in the Functional Requirements Catalogue?**

British Gas is pleased that a gas valve will be included as standard in all smart gas meters. This is central to helping customers prevent debt build up, and the delivery of improved service and reduced costs.

We have provided a detailed response to the content of the catalogue to the first SMDG Technical Assessment Sub Group, in which thirteen substantive changes to the requirements were noted and eight substantive changes to services.

It is important that the economic case for this additional functionality is demonstrated and in absence of supplier benefits that the network benefits feed through as reductions in allowed revenues. This will ensure that the investment that we make, on behalf of customers, results in benefits that ultimately flow through to customers.

We are not persuaded that there is a cost-benefit justification for all the additional functionalities. Specifically:

- Last gasp alert – we believe that the same outcome can be achieved by actively polling meter points without the requirement for batteries and capacitors that degrade and require maintenance. Last gasp alert is no longer an ENA requirement. The addition of a last gasp message adds cost per meter set in the form of either a battery or super capacitor that will require maintenance and/or replacement prior to the end of design life.

- Erasure of consumption data – all Time of Use registers and half hourly values should not be removable, as these are required for billing purposes and are linked to metrological-controlled registers.
- System support measurement of other power quality data including voltage, frequency and sag and swell information, harmonic distortion – we agree with the inclusion of reactive measurement, voltage quality, and frequency, but are unsure on the justification for sag/swell and harmonic measurement. It is our view that these are no longer ENA requirements as the benefits case is unproven.
- Gas meter to measure peak demand for network planning – any changes in the way that networks are modeled and managed would need to be reflected in the Network Owner safety cases. The consequences of inaccurate network modeling are severe.
- Fifteen year battery life for gas meter – the British Gas specification requires a twenty year life for the gas meter, with a battery change after ten years. We think a battery life of fifteen years is harder to deliver and could prompt meter replacement five years earlier than is necessary. One battery replacement within a twenty year meter life is the real requirement and stipulating that this should be after fifteen years will increase costs for no significant benefit.
- The HAN interface shall support real-time two way communication from mains powered nodes (5 seconds delay/update) – while five seconds is an aspiration, due to network capacity issues (given multiple devices in addition to the metering set) 7.5 seconds ensures network integrity when all devices are attempting to communicate.
- The WAN shall be capable of being physically switched on and off by authorised personnel – there is no need to be able to turn the WAN on or off. Such a facility would be open to interference by non-authorised parties and an alternative, not requiring a site visit would be simply to disable the SIM.

We have provided further detailed comment including some suggested points of clarification in our response to the Meter Design Requirements consultation.

**Q7 - Do you see any issues with the proposed approach to developing technical specifications for the smart metering system?**

British Gas is generally supportive of the proposed approach but believe that the proposed regulatory architecture that supports the meter specification can be improved. We have explained in further detail in response to Question 18.

We have invested significant effort in developing detailed energy supplier requirements for smart metering, supporting this with a technical specification that has been developed together with potential service providers. This technical specification can provide a basis for moving forward the industry requirements that have been identified.

We have elaborated further in our answer to question 19.

**Q16 - Do you have any comments on the proposals for requiring suppliers to deliver the rollout of smart meters (including the use of targets and potential future obligations on local coordination)?**

British Gas welcomes the role for energy suppliers in the deployment of smart metering. Suppliers are best placed to understand customer requirements and engage with them in the delivery of benefits through smart metering. The competitive energy supply market provides incentives on energy suppliers to ensure that their customers have a positive experience.

We agree that it is not necessary to prioritise certain groups of customers for receipt of smart meters. Insisting on the targeting of certain customers would add complexity to the rollout, making planning more difficult and in turn increasing travel time between meter installations, cost, complexity and, crucially, the time to roll-out smart meters.

Some customer groups will be prioritised by suppliers, but these are likely to include those that Government may want to see prioritised anyway; for example hard-to-reach customers (where today's metering costs are greater) and high tenancy turnover properties, often in areas of poverty, where the opportunity to reduce customer support and debt costs is greatest.

For the remaining customers, it is highly unlikely that any one customer group would be "left until last". The existing regulatory obligations that require the replacement of meters as they reach the end of their life do not differentiate by customer type. Aged meters are randomly distributed and will drive around 50% of the meter replacements undertaken over the duration of the smart metering deployment. Further, the reduced costs derived from maximising geographical density and efficiency will again drive meter operators towards an area-by-area approach and will provide incentives to complete an area when the numbers of traditional meters fall to uneconomic levels.

British Gas has led the call for an accelerated deployment of smart meters whilst others have been less enthusiastic. We have no objection to the principal of interim minimum installation targets, but are concerned that these could have unintended consequences and may snowball in to a mechanistic and burdensome regime.

Care needs to be taken to ensure that in setting interim targets, a supplier's ability to deploy to the most efficient glide-path for them and their consumers is considered. Setting interim targets does create a risk of forcing deployment rates that are inefficient upon suppliers. Further, and we believe more significantly, there is a real risk that some suppliers – daunted by the prospect of targets – may resort to stalling the start of deployment. We would recommend that most focus is placed on the start and end dates for deployment with bare minimum interim target levels, set at a national level, not geographically or segmented by customer types. These targets must represent a minimum and not maximum deployment rate so that any such regime aids rather than suppresses deployment.

However we do believe that there is a real risk that not all energy suppliers fully embrace the phased implementation approach. This could result in some suppliers only installing small volumes of smart meters in the period preceding Full go live in 2013. If there are to be any interim targets, this is where sharpest focus should be placed. A minimum smart installation target prior to the implementation of the enduring solution in 2013 would ensure all energy suppliers fully embrace the phased implementation approach.

It is important to ensure that any targeting regime remains simple and that the associated reporting is not excessively burdensome. Otherwise unnecessary cost and risk could be introduced in to supplier programmes and this in itself could distract them from the key task of deploying smart meters. Any targets need to be set early and varied infrequently as suppliers and manufacturers need planning certainty.

There is a further risk that over-ambitious targets could result in a skew of focus on the quantity and not quality of installations, with consequent damage to the reputation of the whole industry. We are keen to ensure that we do not compromise the customer experience (and the reputation of the Smart Metering Programme) by hiring lower-quality meter workers who may be available on a temporary / short term basis. The programme must be wary of driving such an outcome.

It would not be difficult for suppliers to share workload plans with the DCC. It will be a requirement for confidence and budgeting on both sides. If it is determined that interim targets are required, our preference would be for suppliers to set these themselves through the sharing of plans with Ofgem that aim to achieve the required completion date, and to report progress against them.

British Gas is already working with communities and Local Authorities as we believe that this can aid improved engagement with customers and greater acceptance of smart meters. This, in turn, should facilitate improved levels of access and a more efficient rollout. We therefore see local co-ordination as

something that will evolve naturally where the benefits are evident. However if further stimulus is required to facilitate improved co-ordination, we would be supportive of it subject to this improving rather than undermining efficiency.

**Q17 - Do you have any comments on our implementation strategy? In particular, do you have any comments on the staged approach, with rollout starting before DCC services are available?**

British Gas is fully supportive of the staged implementation strategy that is proposed.

It is imperative that we accelerate the rollout of smart metering in order to enable the delivery of the myriad of smart metering related benefits including those for consumers, suppliers, reduced carbon emissions, and improved security of supply. The proposed implementation approach delivers an earlier industry go-live date and accelerates the start of widespread deployment of smart meters by 2012.

Further, we need to ensure that the enduring design is fit-for-purpose. The existing industry arrangements are complex, unsatisfactory and result in additional costs to energy suppliers (and subsequently customers) with poor levels of customer service. The role of the DCC is critical to the effectiveness of the ultimate industry design, with the scope of its functions and responsibilities a key driver to the degree of industry simplification and overall benefits that will be achieved. The staged implementation approach allows for a more radical redesign to be put in place subsequently.

In addition, the implementation approach allows for the enduring solution (that includes the DCC) to adopt or learn from some of the tactical smart metering infrastructure introduced as part of tactical solutions. This will augment the additional contribution to the IA made by earlier smart meter installations.

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**Q18 - Do you have any other suggestions on how the rollout could be brought forward? If so, do you have any evidence on how such**



**measures would impact on the time, cost and risk associated with the programme?**

We believe that rollout can be accelerated and de-risked by a simple correction to the proposed regulatory architecture. Key to this is earlier commercial certainty regarding the meter to allow deployment of “compliant” meters to begin by 2011 (we do not accept that this stage must wait until 2012). This can be achieved by separating the issue of interoperability from the delivery of the impact assessment benefits. Interoperability does not materially affect the delivery of smart benefits but does have potential to impact customers that change supplier. However these impacts can be mitigated and do not in any case prevent customers from changing supplier, whereas acceleration of the delivery of smart meters benefits all customers, and so should be the priority. This prioritisation needs to be reflected in the regulatory architecture.

British Gas has provided a paper to the Interoperability Sub-Group of the Data and Communications Group setting out our vision of how interoperability could be assured in short timescale and at low cost.

Immediately after this consultation it should be mandated that all meters must contain the “smart” functionality that is necessary to deliver the IA by a fixed point in time.

As an industry we have spent over three years considering smart metering requirements. We already have the high level DECC requirements A-H, the Energy Retail Association Requirements, Energy Network Association Requirements and our own more detailed specification of requirements, all of which are well aligned. We should be able to use the work already done by industry to land on the meter functionality that is required before the end of this year.

Once the requirements of the meter have been identified industry should be able to take on the role of translating these in to a lower level meter specification.

The detailed design specification necessary to deliver interoperability should be set out subsequently (but without significant delay) and suppliers required to ensure that all meters to be installed after a set date comply with this specification.

This would allow Energy Suppliers to start mobilising their meter supply chain some 18 months sooner and reduce significant risk and cost from the programme.

We believe that progress could be accelerated by divorcing the issue of interoperability from the delivery of the impact assessment. The prospect of falling foul of some technical detail despite delivering all the necessary smart meter functions deters investment because of the risk of stranding that it creates. So long as open standards and protocols are used by participants, interoperability can be achieved, all be it at a higher cost than via standardisation. That standardisation shall, in any case, subsequently delivered by the DCC over time.

Interoperability issues do not in any case impact customers who do not change supplier, whereas acceleration of the delivery of smart meters can benefit all customers. This order of benefits for all, versus potential and resolvable risks for some, needs to be reflected in the regulatory architecture. The functionality required to deliver the IA should be set out in the Licence immediately after the Q1 2011 decision; it should be mandated that all meters must contain this “smart” functionality. The detailed design specification necessary to deliver interoperability should be set out subsequently and Suppliers required to ensure that all meters installed after a set date comply to this specification.

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**Q19 - The proposed timeline set out for agreement of the technical specifications is very dependent on industry expertise. Do you think that the technical specifications can be agreed more quickly than the plan currently assumes and, if so, how?**

British Gas has invested significant effort in developing detailed energy supplier requirements for smart metering, and has supported this with a technical specification that has been developed together with potential equipment suppliers. This in itself has improved the industry expertise and understanding of smart metering requirements and associated specifications.

Progress can be accelerated by using the technical specification that has already been developed by British Gas as a basis for moving forward the development of the wider industry meter specification. The British Gas smart meter specification does simply cover single phase electric and domestic gas meters, but also includes requirements for three-phase electricity and U16 gas smart meters.

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**Q20 - Do you have any comments on our proposed governance and management principles or on how they can best be delivered in the context of this programme?**

British Gas is pleased that energy suppliers have now been given improved levels of access to the programme. The creation of an overall steering group that includes suppliers, and the establishment of industry work groups, provides a huge step forward in the delivery of smart metering.

We are, however, concerned at the lack of input from energy suppliers to the Customer Advisory and Data Privacy Groups. British Gas serves over sixteen million customers and manages extensive IS and data systems. We believe that British Gas, and other energy suppliers, can add a practical perspective to these groups. This will ensure that the policy that these groups develop is workable and more fully informed. We share a common objective with the existing members of these groups of building customer confidence in smart metering and would prefer this to be progressed collaboratively.

We are pleased with the structure of the work groups and the pace and urgency being demonstrated so far within them. However, we believe that

within the sub groups more can be done to capture and record consensus. This will aid transparency and prevent duplication of debate. In addition we feel that that there is scope for Ofgem to take a more active role in chairing the meetings, this ensures that the meetings stay on topic and remain on track. We are also keen to see the mobilisation of the Industry Co-ordination Group. We believe that this should be used to allow industry to take a real leadership role in the delivery of the programme

### **Other high priority issues:**

Whilst there are no specific questions that seek to capture other high priority issues for the 28<sup>th</sup> September response, the assumptions that have been made about the meter inspection regime are fundamentally flawed and this results in a £2.69 billion risk to the IA. We urge Ofgem to acknowledge this as a matter of urgency. We have set this out in further detail below:

Today, meter inspections are carried out during a pedestrian routine meter reading visit, at relatively minor incremental cost. The additional activity associated with a visual inspection of the meter is negligible. Typically we visit a customer's premises eight times every two years to obtain a meter reading, and therefore accumulate an overall access rate of over 90% over this time period. Therefore, there are only a small number of visits required solely for the purpose of undertaking a meter inspection.

When routine meter readings are not required, a meter inspection will necessitate a dedicated visit. The costs associated with this dedicated visit have not been factored into the IA.

There is a direct relationship between the number of visits made and access rates. Routine pedestrian reading costs are relatively cheap; ad-hoc visits are relatively expensive, not least because typically these are geographically dispersed, and so not pedestrian. One pedestrian visit every two years to a property would leave approximately 35% of properties requiring a more expensive follow up ad-hoc visit. Eight visits (today's practice) leave fewer

than 10% of properties requiring a more expensive follow-up visit. Our modeling shows that multiple permutations of pedestrian and ad-hoc visits can be used to achieve a meter inspection, but they all result in similar levels of costs. And those costs are broadly similar to the costs we experience today for a service that delivers quarterly meter reads.

Aside from the £2.69bn gap in the IA, this will appear highly irregular to consumers. Customers frequently complain today about having to allow access for meter inspections – they will simply not understand why a smart meter must be inspected given its capability for remote health checks and tamper alerts.