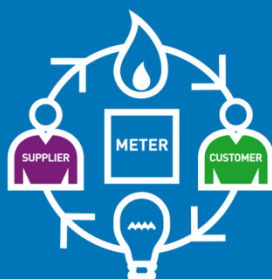


April 2011

Smart Metering

SRSB & Beyond Project

Response to Ofgem Consultation on the Spring  
Package



#### Overview

This document provides responses from the Energy Retail Association to the Spring Package (07 February 2011) consultation questions highlighted questions for response, due 13 April 2011.



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## 2 INTRODUCTION

The Energy Retail Association is delighted to respond to the Ofgem Spring Package Consultation and our responses to the questions posed are provided in the document below. Appendix 1, which is a separate document, illustrates our detailed comments on the licence condition and Guidance drafting. Our members will be responding separately.

In relation to some of the consumer protection issues that have arisen as part of this consultation phase, we are pleased to be able to report that the ERA's members:

- have agreed, as part of a voluntary agreement with Consumer Focus, to exchange PPMs free of charge where the customer is vulnerable and it is no longer safe and reasonably practicable for them to use it;
- have committed to meet to discuss the development of best practice for what constitutes reasonable steps to recover debts via a PPM. This is a step forward in helping to avoid disconnections where it is not (initially at least) safe and reasonably practicable to install a PPM;
- have committed to improve communication with their prepayment customers;
- have agreed with the principle of voluntarily providing compensation to customers who the supplier did not intend to disconnect yet was responsible for doing so (the ERA is working on appropriate amendments to the Safety Net in conjunction with Ofgem);
- have agreed to pay a visit to a customer's premises prior to remote disconnection or switching to prepayment where there has been no previous contact with a customer;
- have agreed with the principle of reconnecting all customers disconnected in error as rapidly as possible, and are considering appropriate time periods;
- are reviewing the Safety Net in conjunction with Ofgem to see if any other changes are required in order to take smart technology into account;
- are considering how to open the Safety Net to non-ERA members; and
- will seek input on proposals from Ofgem and Consumer Focus prior to utilising any load limiting (until the final smart meter technical specifications are known/18-month review).

All of these steps demonstrate ERA members' commitment to implementing consumer protections via the self-regulatory route. In this regard, we welcome Ofgem's engagement with the Safety Net, are pleased to work with them on the proposed changes.

In response to some key points, the ERA:

- is concerned at the disproportionate regulatory risk of enforcement on the basis of a single case of inappropriate disconnection;
- is worried that the licence amendments and guidance might replicate or undermine existing voluntary provisions under the ERA Safety Net or elsewhere, thus causing unnecessary complexity and administrative burden; and
- has been unable to find a consensus position in some of the key policy areas of commercial interoperability, but has provided some of the options and rationale below.

## 3 SPRING PACKAGE QUESTIONS

### Prepayment

#### 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?

- 1.1. The ERA's members are comfortable with the principle of Ofgem issuing guidance on safe and reasonably practicable, but some remain unconvinced that it is necessary or desirable to reinforce it with a licence condition owing to the considerable consumer protections that are already in place.
- 1.2. We remain of the view that guidance should not undermine the focus on outcomes; each case should be judged according to its individual circumstances. With this in mind, we believe that Ofgem should emphasise the fact that the relevant steps will depend on all of the circumstances of the case and therefore suppliers may not have to carry out each and every step.
- 1.3. We strongly believe that, should guidance be issued, Ofgem must ensure that it cannot be amended without due consultation with suppliers and other stakeholders, and it only refers to licence condition 27.6 (a) (iii), and is not used as an opportunity to cover other areas, which would need to be addressed by a separate consultation.

## 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?

- 2.1. Suppliers understand that changes in households' circumstances sometimes mean that it is no longer safe and reasonably practicable for them to use a PPM, and are sympathetic in considering such situations. Indeed, as part of a voluntary agreement with Consumer Focus, all six ERA members have agreed to exchange PPMs free of charge where the customer is vulnerable and it is no longer safe and reasonably practicable for them to use it. In addition, suppliers already offer a range of debt repayment options in order to find the most appropriate solution for vulnerable customers to manage any debt as part of the ERA Safety Net provisions. In light of this and existing licence conditions related to pre-disconnection processes, not all ERA members would support a licence amendment.
- 2.2. ERA members are committed to developing consumer protections via self-regulation. In respect of allowing debt recovery via PPM use, we have committed to meet to discuss the development of best practice for what constitutes reasonable steps to recover debts via a PPM. This is a step forward in helping to avoid disconnections where it is not (initially at least) safe and reasonably practicable to install a PPM. We hope that Ofgem would welcome this progress.
- 2.3. If Ofgem does wish to proceed with the licence amendment, the ERA does have some comments on the proposed wording, which are delineated in appendix 1. Such commentary should not be regarded as an acceptance of the amendment in principle.

## 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?



- 3.1. Please see appendix 1 for our specific comments and suggested amendments. Such commentary should not be regarded as an acceptance of the amendment in principle; its purpose is to provide views should Ofgem decide to proceed with the licence amendments.
4. Do you agree with our view that the current notification periods for switching to a prepayment meter are sufficient?
- 4.1. Yes. ERA members will continue to follow the appropriate debt path, including early discussion about repayment methods and amounts and making multiple attempts to contact the customer by various methods.
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?
- 5.1. As part of the aforementioned voluntary agreement with Consumer Focus, ERA members have committed to improve communication with their prepayment customers. The ERA recognises the benefits of the information provision that Ofgem proposes. However, we believe that any condition, if implemented, should allow suppliers to adopt a flexible approach based on the individual circumstances of each case, while still providing a suitable backstop protection for customers.
- 5.2. Please see appendix 1 for our specific comments and suggested amendments. Such commentary should not be regarded as an acceptance of the amendment in principle.
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?
- 6.1. We generally understand the rationale for this approach and agree with the principle that customers should be able to top up in cash on an enduring basis. However, we do not consider it necessary to explicitly require suppliers to provide this ability because Ofgem's concerns should be covered by the 'safe and reasonably practicable' condition. We also think that this is an area that would need to be kept under review, given the potential complexity of prepayment functionality during the smart metering roll out.

## Remote Disconnection

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?
- 7.1. As Ofgem is aware, there are extensive provisions within the ERA Safety Net outlining steps that suppliers take to identify vulnerability. Some members are concerned that additional guidance may result in unnecessary complexity and replication of provisions, or a 'tick-list mentality' that we are eager to avoid.



7.2. Please see appendix 1 for our specific comments and suggested amendments. Such commentary should not be regarded as an acceptance of the amendment in principle.

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

8.1. Please see appendix 1. Such commentary should not be regarded as an acceptance of the amendment in principle.

### 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?

9.1. As Ofgem has noted, ERA members already reconnect vulnerable customers, that had not been identified as such prior to disconnection, as soon as possible and usually within 24 hours as part of the Safety Net provisions.

9.2. ERA members agree with the principle of voluntarily providing compensation to customers who the supplier did not intend to disconnect (yet was responsible for doing so), and are working on appropriate amendments to the Safety Net in conjunction with Ofgem. In this regard, we need to be clear that such cases would not include:

9.2.1.circumstances outside the supplier's control (whilst it would not be fair for suppliers to pay the price for someone else's mistake, we think further consideration needs to be given to what the correct incentives are and how they are put in place for third parties in ensuring that customers are not disadvantaged); or

9.2.2.where the customer was identified as vulnerable subsequent to disconnection (in order to avoid the unintended consequence of customers withholding information or failing to co-operate with suppliers. In addition, we believe that there are already significant provisions in place to protect vulnerable customers from disconnection; the comprehensive steps set out by the ERA Safety Net and the winter moratorium licence condition mean that compensation would not add to existing processes and protections).

9.3. ERA members also agree with the principle of reconnecting all customers disconnected in error (i.e. those not subject to time-dependent negotiation of reconnection charges) as rapidly as possible, and usually within 24 hours. The ERA is speaking to colleagues with smart metering expertise to understand what reduced period might be technically possible and will be working on appropriate amendments to the Safety Net in conjunction with Ofgem. The point at which the 'clock starts' will also need to be agreed.

9.4. The ERA is also taking this opportunity to review the Safety Net to see if any other changes are required in order to take smart technology into account. We are liaising closely with Ofgem on this project and hope to submit a revised version in the near future, which we would like to present to non-ERA suppliers also. We also envisage the Safety Net continuing to be reviewed over time to ensure that it remains fit for purpose and provides suitable protection for appropriate customers.



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

10.1. Yes. ERA members will continue 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.

**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?**

11.1. As previously stated in our October response to the prospectus, the ERA agrees that all options and approaches for incentives to encourage customers to pay their bills should be explored and we would welcome the opportunity to work closely with Ofgem and consumer groups in this area.

11.2. At this early stage in the development of smart meter functionality, the ERA doesn't feel that load limiting is necessarily tantamount to disconnection. Due to the level of complexity in this area it is essential more work and careful assessment is done within the Programme to understand and define exactly what load limiting is. There needs to be a distinction between the use of such methods as an agreed product or payment method and the use of such methods as a last resort in an ongoing process of debt follow up. We need to consider how load and credit limiting could be introduced, the circumstances in which it is acceptable, and the wider impacts on consumers, before load and credit limiting is used more generally in the market.

11.3. We also need to understand the implications of the final smart meter technical specifications before conclusions can be reached. Load limiting and trickle disconnection may for example be appropriate for future housing developments where a meter could feed into the consumer unit so that specific circuits could operate whilst others would not, however this approach simply won't be possible to implement or maintain given the existing housing stock in GB.

11.4. In the interim, ERA members will seek input on proposals from Ofgem and Consumer Focus prior to utilising any load limiting, particularly as a debt management tool.

11.5. We would also ask that Ofgem review the situation in 18 months with a view to providing additional clarity.

**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.**

12.1. The ERA feels that existing debt path obligations for suppliers still apply with regard to non-domestic customers





## Commercial Interoperability

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

13.1. The ERA fully agrees that interoperability in the foundation stage will be essential to building industry readiness and promoting positive consumer engagement, and we are committed to delivering this. However, there is not a clear consensus view amongst ERA members on how best to deliver this, whether there should be any obligations on the use of the meter and what any obligations should look like if they are mandated. The answer to this question explores some of the options and rationale behind the available options.

13.2. It might be reasonable for the installing supplier to ensure that its Meter Asset Provider offers reasonable and non-discriminatory terms to the incoming supplier. However, this obligation should terminate once the change of supply has completed. If the obligation remains on the installing supplier, its compliance with the obligation becomes dependent on action on 3<sup>rd</sup> parties who participate in subsequent changes of supplier events, and based on current industry practices, the installing supplier would not have any knowledge that a subsequent change of supplier had even taken place, and could result in the installing supplier being in breach of its licence obligations without ever knowing.

13.3. Any obligation on the installing Supplier to ensure that its appointed agent/s offers terms to incoming Suppliers is something that should be explored further, with appropriate input from Legal/Procurement experts who can provide appropriate advice in this area. The natural characteristics of the competitive metering market will enable incoming Suppliers to negotiate fair and reasonable terms, as it is in the interests of the asset owner to secure ongoing meter rental with the new Supplier, rather than the asset becoming stranded. This is already common practice within the current competitive metering services market.

13.4. It is sensible that any obligations in this area are not too cumbersome and do not prevent Suppliers from undertaking the work needed to deliver the enduring solution for smart metering. There is a view from some that it needs to reflect that a supplier must offer terms, and that those terms are fair, reasonable and non-discriminatory. However, it is also important that Suppliers are not disincentivised from making progress with smart meter deployment ahead of the DCC. We also need to ensure that testing and trialling of smart metering and its associated functionality is facilitated and not compromised by any regulatory framework.

13.5. The full scope of the services required to be offered also needs to be established, for example, is it a basic AMR service, or a more complete smart solution such as tariff changes, remote configuration etc? There is also the question as to whether the incoming supplier should be obliged to accept those terms in order to provide protection on the stranding of assets to the original supplier, again without a consensus view amongst ERA members. The ERA feels that all obligations on outgoing Suppliers need to be explored further before any firm decisions are taken in this area and welcome further discussion between Suppliers and Ofgem over the





coming months.

**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?**

14.1. Any supplier obligations need to have a justified objective. In terms of an obligation to offer terms for the use of a meter, the objective should be to deliver commercial interoperability and minimise instances of removing meters unnecessarily. Subject to the above considerations on whether obligations are required, it would appear appropriate that any terms on offer should be fair, reasonable and non-discriminatory,.

14.2. There is always likely to be a certain level of differences in metering charges between parties, reflecting the differences in the costs between suppliers with varying size portfolios. It should not be unreasonable for differences to be objectively justified, and the ERA would suggest that it will be sensible for Ofgem to work with Suppliers to define the circumstances in which such differences would need justification.

14.3. We acknowledge that suppliers who install smart meters ahead of the technical specification being confirmed should bear the risk of meters being non-compliant and on change of supplier should not expect to recover more than the costs for a dumb meter for non-compliant meters. However, at least one ERA member has made the point that Suppliers must not be disincentivised from making progress on smart meter deployment pre-DCC.

14.4. There has been some discussion within the Smart Metering Implementation Programme and within the ERA on whether a standard charging methodology would be appropriate. It is our general view that a standard methodology would be too prescriptive, but that some charging 'principles' would be useful, e.g.:

- Must be transparent
- Standard presentation to allow like-for-like comparison
- Standard approach to amortisation of installation charges

14.5. We do believe that there is an opportunity to introduce standard treatment of installation costs to avoid the current situation where the capital and installation assets are amortised differently by different agents.

**15. Do you agree with the proposed obligation that terms should be transparent?**

15.1. The ERA feels that if charges are different for a particular meter, then it is not necessary to publish those charges. They should however be made available to the incoming supplier to ensure that the new supplier has appropriate visibility of the charges they are likely to face.

15.2. There is no consensus position amongst ERA members on whether an



obligation is required, for similar reasons to those set out in response to question 13.

### 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?

16.1. There is no consensus position from the ERA's members on this issue. This essence of this question is whether or not Suppliers should be obligated to provide certain elements of a service to a competing supplier, and generally, the ERA's members recognise the potential benefits of such an obligation in order to ensure consumers can continue to benefit from a smart meter installed at their premises following a Change of Supply event. As highlighted in response to question 13, there is more clarity required on the scope of services that could or should be provided in the Foundation stage to support interoperability.

16.2. In order for such an obligation to be effective in a fully competitive market, it is likely that the supplier providing such services to a competing supplier would need to operate those services in isolation as a separate business activity and would therefore need to assess whether or not there is a positive business case for such activity. An alternative approach would be for the introduction of a managed service to provide services to the incoming supplier to allow the continuation of the meter to operate in smart mode. However, there is no consensus view between the ERA's members on the merits of such an approach.

16.3. There are also a number of other factors that should be considered prior to any decision making in this area. For example, there are some key decisions to be made as part of the Smart Metering Implementation Programme in terms of migration of existing communications contracts between Suppliers and communications service providers into the DCC. If any such contracts are likely to be migrated soon after the DCC becomes operational, what impact does that have on any supplier obligation to offer interim services?

16.4. On this basis, it is the ERA's view that any decision should be deferred until further work has been done in this area as part of the Programme, as suggested in the Central Communications and Data Management section of the Prospectus response. There needs to be a full understanding of all issues in this area, including discussions around obligations on outgoing suppliers to offer terms, and any obligation on incoming suppliers to accept them, as discussed in our response to Question 13 above.

16.5. If an outgoing supplier decides to offer such services, and the incoming supplier opts not to utilise those services, then it is inevitable that the meter would be operated in 'dumb' mode until the DCC becomes fully operational.

### 17. Do you have any comments on our proposed approach for dealing with prepayment?

17.1. It is highly unlikely that all Suppliers will have all appropriate systems and processes in place to operate smart prepayment meters remotely and as truly interoperable prior to the DCC becoming fully operational, even if the DCC itself plays no central role, other than the communication of credit update messages to a



smart meter.

17.2. There is a difference in view between ERA members on the approach to Prepayment.

17.3. It is essential that Suppliers should not be prevented from operating smart meters in prepayment mode prior to DCC go-live, as Suppliers will need to gain valuable experience of operating new systems, processes and payment options. However, the ERA has no consensus view on whether Prepayment should be part of the functionality offered to incoming Suppliers on change of supplier or whether there should be a limit on the numbers of smart meters installed in prepayment mode prior to wider roll-out. There will be commercial decisions made by Suppliers on the approach to replacing existing prepayment meters due for replacement prior to the wider DCC Go-live.

17.4. Of course there is a risk that customers with smart meters operating in prepayment mode will want to change their energy Supplier and if the incoming supplier wishes to offer prepayment, it may be the case that a limited number of meter exchanges are inevitable if the new Supplier does not have relevant smart prepayment arrangements in place or the customer is unwilling or unable to accept the smart meter reverting to smart credit mode. However, as with the proposals under Question 16 above, the original Supplier does have the option of offering to operate its prepayment infrastructure services to the incoming Supplier on a commercial basis if they should wish to do so, and terms can be agreed between the relevant parties. However, as highlighted in 16.4 above, further discussions are required around obligations on outgoing suppliers to offer terms, and any obligation on incoming suppliers to accept them.

### 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?

18.1. The ERA is concerned that by excluding any groups from interoperability obligations, there could be a negative impact on the experience of smart metering for those consumers, in turn impacting the wider programme, and as such, believe that commercial interoperability obligations should apply to all suppliers, regardless of the size of their customer base or number of smart meters.

18.2. As noted in the Prospectus Response, customers who request smart meters early may be more likely to engage with the information provided by smart metering. They may also act as role models in their local communities, providing reassurance and encouragement to others. All practicable steps should be taken in promoting consumer confidence and a positive consumer experience of smart metering. Consumers need to access the full potential benefits of smart metering, including the ability to effortlessly switch suppliers. Overseas experience of smart meter rollouts has demonstrated that a negative experience for a small number of consumers can have a big and damaging impact on a programme.

18.3. Also with much of the mass rollout looking to lessons learned from the foundation stage, there is a possibility of valuable opportunities being missed for the testing of equipment, systems, processes and consumer engagement strategies. Any framework must support appropriate testing and trialling volumes.