



Response to Smart Metering Spring Package - Addressing Consumer Protection Issues

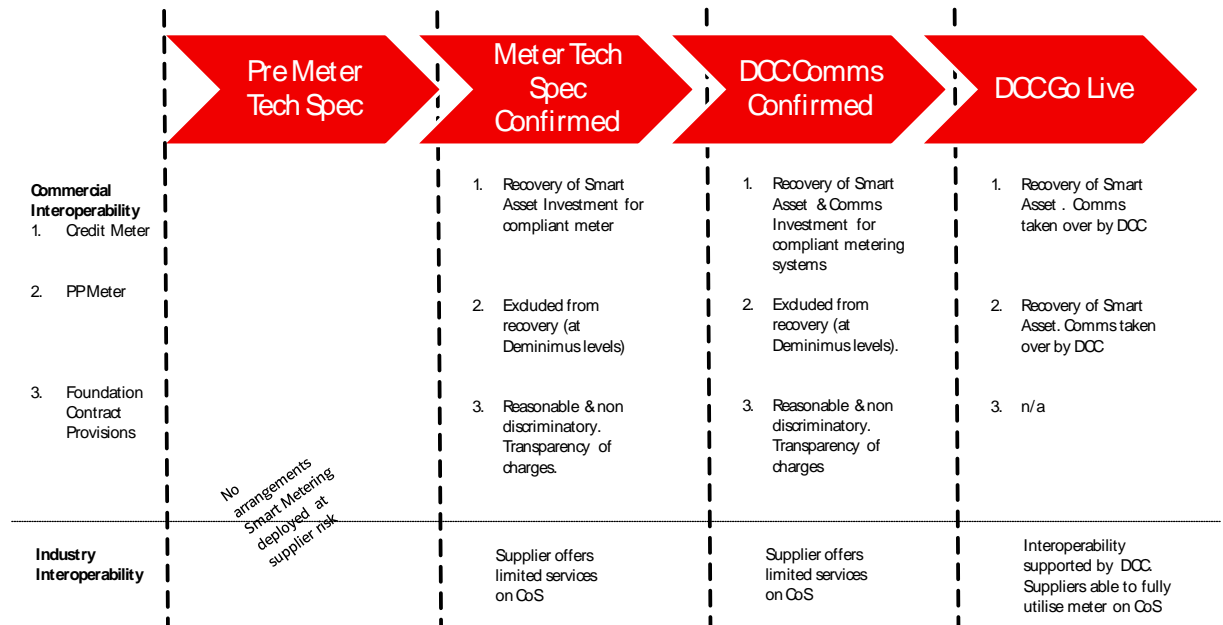
Executive Summary

Prepayment & Remote Disconnection

1. We are supportive of the approach that Ofgem is suggesting to enhance consumer protection regulations with regards to prepayment and remote disconnection in advance of the roll out of smart meters.
2. We agree that the existing licence requirement for suppliers to install prepayment metering only where it is safe and reasonably practicable to do so is a sound regulatory approach. We are therefore supportive of the development of revised guidance by Ofgem on this matter but are not convinced that this requires specific reference within the licence itself.
3. Some suppliers have signalled that they intend to install large numbers of smart meters prior to the establishment of the Data and Communications Company (DCC). In the context of these developments it is understandable that Ofgem may feel the need to act.
4. We would caution against hastily introducing new regulations that may have unintended consequences and hinder the development of innovative solutions for consumers.
5. With regards to privacy we share Ofgem's concerns and believe the right approach is to leave this to the Government and DECC programme. This is an important aspect of the smart metering programme and its successful delivery will be critical to consumer acceptance and delivery of the overall business case for smart metering.

Commercial Interoperability

6. Our working assumption is that the arrangements proposed in the Spring Package will become effective from the dates scheduled in the Foundation Baseline Plan as set out in Figure 3 of the Implementation Strategy in the Response to Prospectus Consultation.
7. As a result of the approach to the development of smart metering in G.B. there is likely to be a staged development of commercial interoperability. Different services may need to be provided as more certainty arises. In particular clarity is required on which services the original supplier will be required to offer in the event of change of supplier.



We agree with the principle that suppliers should offer terms for the use of a compliant smart metering system and that in the interests of Better Regulation this requirement should be added as a licence obligation. This obligation should be time capped and be applied only during the Foundation period.

8. Foundation activity will increase overall costs, but there will be benefits such as customer engagement and ability to develop key learning in a controlled environment. If we seek to develop an overly elaborate Foundation solution it will divert resource from the final target solution and there is a risk that it may become an unfortunate, low quality enduring solution. Compromises are likely to be essential for Foundation arrangements (e.g. restricting the number of customers to be offered smart meters) and restricting the activities available (e.g. it may not be possible to offer prepayment following a change of supplier). Shortcomings should be resolved in the enduring arrangements, not by adding complexity to the Foundation arrangements.
9. A model which could work during this period would be for the original installing supplier or its agent to offer a monthly electronic read on change of supplier using existing industry flows. This could be offered as a bundled service inclusive of communications thus avoiding complexity over migration of communication services prior to the DCC. This would effectively provide an AMR service but no more. This approach is simpler to achieve than requiring the provision of meter technical details and in particular the potential novation of communication contracts which for example may involve exchanging



SIM's and aligning change of supplier dates with communication change.

10. We are pleased with the approach detailed in the Response to the Prospectus Consultation with a supporting commercial interoperability regime that encourages activity during the Foundation period. This provides protection for compliant smart meter installations by enabling full smart rental to be recovered on change of supplier. Under this arrangement any obligation could sit on the incoming supplier if the original supplier offers a simple AMR service on reasonable and non discriminatory terms.
11. It should be recognised that prepayment is a very complex issue for smart metering systems and processes. Any specific prepayment arrangements that may be deployed in the Foundation period would add further complexity and cost to this segment of the market.
12. Suppliers should be permitted during the Foundation period to trial different technologies and processes in order to inform industry development. This will move the industry forward and in doing so enhance the relationships that suppliers have with their customers.
13. It would seem sensible, to exclude prepayment (other than at a de minimis level) from Foundation arrangements whilst this technology is very much in its infancy and development. Instead experience gained from these early deployments should be used to develop enduring arrangements as soon as possible so that prepayment customers can be part of an early phase of DCC delivery.
14. Trials of prepayment/PAYG customers should involve no more than 25k customers. Suppliers will need to make it clear to customers in a PAYG trial, that on change of supplier, the customer may need to have their meter changed (possibly for dumb prepayment functionality). For other customer groups 50k customers is a recognised de minimis precedent for smaller suppliers so it may be sensible to apply the same volume limit for any potential trial.
15. We welcome the proposal in the Response to the Prospectus Consultation for the DCC to adopt compliant communication contracts up to a guaranteed level. Customers will not receive the full benefits of smart metering during this period and their experience particularly on change of supplier may be much worse than in the enduring solution. It is therefore sensible to place a cap on the numbers of smart metering systems that the DCC is obliged to support.



Pre-Payment and Remote Disconnection

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?

1. We agree that the existing licence requirement for suppliers to install pre-payment metering only where it is safe and reasonably practicable to do so is a sound regulatory approach. It places the onus upon suppliers to seek to establish the customers' circumstances and to provide the most appropriate means of prepayment. It avoids creating a simplistic 'tick box' approach to regulatory compliance.
2. This approach has proved successful to date and there is nothing to suggest that this would be any different after smart meters are installed, although the ease with which smart meters can be switched back to credit mode means that with appropriate support customers could be encouraged to try prepayment.
3. The use of guidance by Ofgem is helpful in ensuring that suppliers have an understanding as to what the regulator believes is a reasonable approach to meeting the licence requirement. Guidance is more flexible than prescribing excessive details within the licence and can be amended quickly to suite changing requirements.
4. Whether particular guidance is referenced within a specific licence condition itself would seem a subjective point as it could be reasonably assumed that any guidance issued by the regulator would be considered material by a supplier when considering how it was going to ensure it was compliant with a relevant licence condition.
5. We are therefore supportive of the development of revised guidance by Ofgem on this matter and have cooperated on drafting these, but are not convinced that this requires specific reference within the licence itself.

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?

6. Yes, we should be required to offer a payment mechanism that a customer can readily use. However, we would hope that smart electricity prepayment can be made safe and reasonably practicable for any customer and is preferable to the potential outcome of non-payment leading to a risk of disconnection. We therefore would not oppose the proposed amendment to the Supply Licence.



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?

7. The draft guidance issued along with the consultation would seem to strike a reasonable balance and allow suppliers to develop business rules that would work in the interests of consumers.

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

8. We believe that the current notification periods are sufficiently robust to protect consumers and do not need amendment.

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?

9. Yes. It is imperative that customers are told how to use the device and for payments to be made to their supplier. As smart metering is introduced and new metering technology is used there is added incentive for energy suppliers to increase the information that is provided to their customers. We are therefore not opposed to the proposal from Ofgem as we would consider this supporting good operational practice.

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?

10. We believe that the existing Supply Licence Condition 27.1 should be sufficient to ensure that those customers that are only able to pay for their energy using cash can find an energy supplier. We believe that this Licence condition is suitably robust to protect consumer interests and that changes are not warranted at this point in time.

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?



11. Guidance from the Regulator is often useful to participants in the energy market and can aid licensed entities in ensuring that they are compliant with regulations. We are therefore not opposed to Ofgem developing guidance regarding this issue.
12. Currently the number of customers that we disconnect is extremely small as we aim to work with our customers who are struggling to pay their bills and come to an alternative arrangement. We do not perceive that this situation will change with the implementation of smart meters and therefore from our own experience question whether the guidance needs to be referenced in the existing Licence.



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

13. We broadly agree with the guidelines, but note that some items will involve substantial extra cost, which may be charged to the customer. For instance to make multiple visits to premises at different times of the day. We agree that this is appropriate to seek to establish contact before disconnection where full debt repayment could be required (i.e. disconnection could be for an extended period). However it may not be appropriate where the customer is known from previous contact to not be vulnerable or where fitting a prepayment meter is appropriate, but requires the customer to be present.

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?

14. Smart metering technology provides the ability for customers to be reconnected very quickly without the need for arranging site visits. Therefore by default all reconnections in the future will be considered rapid compared to today's timescales.
15. At this point in time, prior to the mass roll out of smart meters, it is premature to consider whether there will be an issue of customers being disconnected in error as there is no evidence on which to draw any conclusions. We therefore support the sensible suggestion of leaving compensation considerations to individual suppliers.

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

16. Yes we agree with the 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?

17. *Load Limiting* - It is logical to include this in the definition of disconnection to ensure protection for consumers although at this point in time it is not clear as to how this functionality may be used. We would therefore not oppose the proposal with regard to load limiting but would urge Ofgem to monitor this area closely to ensure that innovation within the market is not hindered in the future leading to a detrimental impact upon consumers.



18. *Credit Management* - The definition of managed credit seems confusing and unclear from the proposed amendments to the Supply Licence as the practice described would seem to fit either the proposed definition of a Prepayment Meter or come under the existing regulations around disconnection (i.e. a notice period to the customer before disconnection is required). We suggest that greater thought is given to what this regulation is trying to achieve. We welcome the suggestion made by Ofgem at the recent drafting workshop that conditions relating to load limiting and credit limiting are reviewed after 18 months.



Question 12: Are there any protections that should be considered regarding disconnection and prepayment for non-domestic customers?

19. We do not believe that any additional protection should be considered at this point for the non-domestic market. Existing regulations regarding notification periods for disconnection of non-domestic customers are we believe suitable and there is no evidence to suggest that these need to be amended.

Commercial Interoperability

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

20. We agree with the principle that suppliers should offer terms for the use of a compliant smart metering system¹ and that in the interests of Better Regulation this requirement should be added as a licence obligation. This obligation should be time capped and be applied only during the Foundation period.
21. A model which could work during this period would be for the installing supplier or its agent to offer a monthly electronic read on change of supplier using existing industry flows. This could be offered as a bundled service inclusive of communications thus avoiding complexity over migration of communication services prior to the DCC. This would effectively provide an AMR service but no more. This approach is simpler to achieve than requiring the provision of meter technical details and in particular the potential novation of communication contracts which for example may involve exchanging SIM's and aligning change of supplier dates with communication change.
22. We are pleased with the approach detailed in the Response to the Prospectus Consultation to a supporting commercial interoperability regime that encourages activity during the Foundation period. This provides protection for compliant smart meter installations by enabling full smart rental to be recovered on change of supplier. Under this arrangement any obligation could sit on the incoming supplier if the original installing supplier offers this simple AMR service on reasonable and non discriminatory terms.
23. During the Foundation period interim interoperability arrangements must be considered as a short term solution and be simple and quick to achieve. Interim activity will increase overall costs, but there will be benefits such as customer engagement and validation of approach and the ability to develop an understanding of new technology in a controlled environment. If we seek to develop an overly elaborate interim solution it will divert resource from the final target solution and there is a risk that it may become an unfortunate, low quality enduring solution. Compromises are likely to be essential for interim arrangements (e.g. restricting the number of customers to be offered smart meters) and restricting the activities available (e.g. it may not be possible to offer prepayment following

¹ A compliant metering system could extend to the meter (including functionality, HAN and security standards and protocols), any interim communications standards or protocols before DCC communications solution(s) are selected (e.g. must be GPRS, contracts must be capable of novation to DCC) and WAN module(s) once decided by DCC but before DCC is fully operational.



a change of supplier). Shortcomings should be resolved in the enduring arrangements, not by adding complexity to the interim arrangements.



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?

24. It would be sensible under the arrangements described in Q13 for terms to be reasonable and non-discriminatory. These conditions could be included within the obligation. To support the concept of what is reasonable some charging 'principles' would be useful, in particular standard treatment of installation charges and use of termination charges. Non discrimination could operate in the same way as under the Joint PES metering contracts whereby all suppliers are offered the same terms and conditions.

25. In order to ensure a consistent approach across suppliers to the use of reasonable and non discriminatory terms it is likely that Ofgem will need to undertake some form of "policing" role to ensure that the arrangements deployed do not disadvantage customers.

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

26. Yes. This could be fulfilled by making terms available immediately to any gaining supplier on a change of supplier event. In practical terms this transparency will be delivered via bilateral contractual arrangements that suppliers will offer and sign up to.

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?

27. Under the model described in response to Q13, communications would form part of a bundled service. Under other circumstances there may be practical and contractual barriers to offering a communications service which could add additional cost and complexity and possible delay to the introduction of interim arrangements.

28. We welcome the proposal in the Response to Prospectus Consultation for the DCC to adopt compliant communication contracts up to a guaranteed level. Customers will not receive the full benefits of smart metering during this period and their experience particularly on change of supplier will be worse than in the enduring solution. It is therefore sensible to place a cap on the numbers of smart metering systems that the DCC is obliged to support through this mechanism.

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



29. It should be recognised that prepayment is one of the most complex issues for smart metering systems and processes. Suppliers are currently deploying proprietary solutions for Prepayment Pay As You Go (PAYG) trials which are not interoperable. It would therefore be very difficult for suppliers to have arrangements in place to support the incoming supplier to use the meter in prepayment mode.
30. For instance the generation of vend codes for payment transactions are generally created in supplier systems utilising meter manufacturer specific technology. It is becoming widely accepted that this is not viable in the longer term and that in the post DCC world that the DCC may be the most appropriate entity to manage the generation of these codes.

31. As another example we have developed smart PAYG solutions that involve full bill calculations on the meter whilst other suppliers take different approaches utilising “inclusive tariff” bundling charges. In our view this “inclusive tariff” approach does not provide the same accuracy when displaying balances to customers especially at critical times such as reaching self disconnection thresholds.
32. Other suppliers may have opted for a managed credit facility where the charges are calculated by the suppliers back office systems and if the customer does not pay the agreed amount a remote disconnection message subject, to appropriate controls, may be sent to the meter.
33. Suppliers may also want to trial other functions such as a central wallet system where credits can be split over two fuels to fulfil customer demand for improved services.
34. These variations and the commercial sensitivity of the data collected from trials introduce complications in developing standard PAYG industry processes pre DCC. This means that development of interim prepayment solutions will not be simple to implement and will almost certainly add time and cost.
35. It is therefore extremely difficult to provide interoperability until the enduring prepayment arrangements are defined.
36. We understand concerns that Prepayment customers should not be excluded from the benefits of early deployments of smart metering systems. However, a number of studies to date have pointed to a smaller overall reduction in consumption amongst this group of customers compared to credit customers. Existing prepayment customers already have a heightened awareness of their energy use through existing prepayment technology.
37. We do not wish for any specific prepayment arrangements that may be deployed in the Foundation period to add further complexity and cost to this segment of the market. Industry should be striving to simplify and remove costs for customers through the deployment of smart metering systems.
38. Suppliers must be permitted during the Foundation period to trial different technologies and processes in order to inform industry development that will move the industry forward and enhance the relationships that suppliers have with their customers.
39. It would seem a sensible approach to exclude prepayment (other than a de minimis level) from any interim arrangements whilst this technology is very much in its infancy and development and instead use experience gained from these early deployments to develop enduring arrangements as soon as possible so that prepayment customers could be part of an early phase of DCC delivery.

40. We therefore propose that trials of prepayment/PAYG customers should involve no more than 25k customers. These should be managed through arrangements outside commercial terms i.e. suppliers will need to make it clear to customers that on change supplier, the customer may need to have their meter changed (possibly for dumb prepayment functionality) pre DCC.

Question 18: Do you believe there should be a de minimis threshold before commercial interoperability obligations apply?

41. We agree that de minimis thresholds would be suitable as the Foundation period will be used to gain learning to support mass rollout
42. We have set out in our answer to Q.17 our view as to the level appropriate for PAYG trials.
43. For other customer groups 50k customers is a recognised precedent for smaller suppliers so it may be sensible to apply the same volume.