



Promoting choice and value

for all gas and electricity customers

Supporting effective switching for domestic customers with smart meters

Final decision and statutory consultation

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Overview:

This document sets out our final proposals and associated statutory licence consultation relating to the regulation of the early, voluntary deployment of domestic meters with smart capability by some energy suppliers.

We are proposing to place additional obligations on suppliers to protect customers with advanced domestic meters on change of supplier.

Context

The government has established a programme for rolling out smart meters ('The Programme'). In July 2010 it published a consultation ('The Prospectus'¹) that set out how it intends to manage this roll-out.

The government's March 2011 Response to the Prospectus² confirmed its position that all energy suppliers should be obliged to install smart metering equipment³ for all domestic and smaller non-domestic premises by a specified target date in 2019.

These obligations will be introduced principally using powers under section 88 of the Energy Act 2008, which enable the Secretary of State to modify conditions of licences for the purpose of rolling out smart meters.

In advance of the confirmed technical specification and associated mandate of smart meters, the government is supporting a Foundation Stage to enable suppliers to prepare for mass roll-out. Many suppliers are using, or are planning to use, this opportunity to install advanced domestic meters to inform the subsequent roll-out of smart meters. These suppliers are commonly referred to as 'early movers'.

Our Corporate Strategy recognised the potential wider impact of smart metering. We have committed to introducing new consumer protection measures in response to early smart meter deployments. This consultation is part of our wider work that we are undertaking to protect customers receiving smart meters prior to the start of the mandated rollout of smart meters.

Associated documents

- Commercial Interoperability: proposals in respect of managing domestic customer switching where meters with advanced functionality are installed (109/11)
- Smart Metering Spring Package - Addressing Consumer Protection Issues (13/11)
- Smart Metering Consumer Protections Package - Statutory Consultation (88/11)
- Smart Metering Consumer Protections 'Spring Package' – non domestic
- Review of Metering Arrangements - Initial Findings and consultation on proposed metering industry remedies (162/10)
- Review of Metering Arrangements: Decision and consultation on transition to smart meters
- Promoting smarter energy markets (174/11)

¹ *Smart Metering Implementation Programme, Prospectus document, Ofgem and DECC, July 2010.*

² *Smart Metering Implementation Programme, Response to Prospectus – Overview document, Ofgem and DECC, March 2011.*

³ This equipment will need to meet a specified technical specification.

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Executive Summary

This document sets out our final proposals for changes to gas and electricity supply licence designed to protect domestic customers who have 'early smart meters' (known as advanced domestic meters (ADMs⁴)). Our proposals aim to improve customers' ability to switch supplier without losing the smart functions provided by their ADM, such as remote meter reading.

Our proposals complement the work of the Department of Energy and Climate Change (DECC)'s Smart Meter Implementation Programme ('the Programme'), the work of Ofgem in developing the regulatory framework for traditional metering in the context of the transition to smart metering, and the wider work undertaken by Ofgem to protect customers receiving ADMs⁵.

Background

The Programme is aiming to introduce a range of measures to support the roll-out of around 53 million gas and electricity smart meters by gas and electricity suppliers by 2019.

In advance of the mandated roll-out of smart metering, DECC is supporting the deployment of ADMs by suppliers. This deployment (known as the Foundation stage) is intended to provide suppliers, DECC and consumers with increased experience that may help support a successful mass roll-out of smart meters. As the regulatory framework for smart meters is not in place during the Foundation stage, there are no formal arrangements to support the retention of the functionality of the ADM on change of supplier.

Customers may therefore find that after changing supplier, services related to the advanced functions of the meter may not be supported by the new supplier. This may, for example, lead to the loss of pricing information on a display device⁶, the reversion to frequent visits from a meter reader or an increased use of estimated bills. At worst, it may mean the inconvenience of having the meter replaced, for example where advanced prepayment services cannot be supported by the new supplier. We are already aware of a small number of consumer complaints regarding difficulties and/or inability to switch supplier once an ADM has been installed.

Objective

The aim of this consultation is to implement changes to the existing regulatory framework that help minimise the potential adverse impacts on customers with ADMs

⁴ The functionalities that define an ADM are set out in the 'Introduction' chapter of this document.

⁵ *Smart Metering Spring Package - Addressing Consumer Protection Issues, 2011*

⁶ A display device is defined in our proposed licence conditions as an ECD. An ECD is an electronic device that provides information, by electronic display, for the purposes of ascertaining the quantity of gas/electricity supplied through pipes to Domestic Premises and/or information relating to Charges for the Supply of Gas/Electricity, in relation to Domestic Premises where an Advanced Domestic Meter is installed. This definition is likely to include most in-home display (IHD) devices.

on change of supplier. The proposed changes are also designed to facilitate the retention of advanced functionality by the customer on change of supplier.

We recognise that arrangements being delivered by government will provide an enduring technical solution to support a seamless change of supplier process for smart meters. However, commercial protections are necessary and appropriate for ADMs installed before then so that consumers can access the full benefits of early smart meters.

Final proposals

In August 2011, Ofgem issued a consultation document on proposed modifications to the licence obligations on gas and electricity suppliers, to protect customers with ADMs upon change of supplier⁷.

We have carried out further analysis of these proposals and considered the responses to the August 2011 consultation. We now set out our final proposals and statutory licence consultation on proposed modifications to the gas and electricity supply licences. The proposals are intended to:

- ensure that customers with ADMs are aware of the potential impact that changing their supplier may have on the functionality of their meter
- ensure that customers with prepayment meters are not disadvantaged if the ADM needs to be replaced on change of supplier
- facilitate the retention of the advanced capability of the meter and the accuracy of the information contained in the meter on change of supplier.

We are now launching a statutory consultation on proposed modifications to the gas and electricity supply licences to introduce these obligations. The consultation closes on 3 February 2012. This is a notice of proposed modification to the standard conditions of:

- The Gas Supply Licence under section 22 of the Gas Act 1986; and
- The Electricity Supply Licence under section 11A of the Electricity Act 1989.

These modifications are designed to minimise the detriment that consumers may experience on change of supplier in the run up to the full smart meter roll-out. We have aimed to achieve a balance between the level of customer protection offered by these proposals and the costs that suppliers are likely to incur in developing processes and systems to comply with the additional obligations before the enduring technical solutions are delivered by the Programme.

We will keep these regulations under review in light of developments and experience in the market, and as the work of the Programme evolves.

⁷ *Commercial Interoperability: proposals in respect of managing domestic customer switching where meters with advanced functionality are installed, Ofgem, 2011.*

1. Introduction

The context for our proposals and their relationship to the Smart Meter Implementation Programme, and other related Ofgem work.

1.1. This document sets out our final proposals and associated statutory licence consultation relating to the regulation of the early, voluntary deployment of meters with smart capability (ADMs) by some energy suppliers. These final proposals are based on our initial consultations in February 2011 and in August 2011⁸, and the responses we have received in response to those consultations.

1.2. We refer to meters that are currently being installed and have advanced functionality as Advanced Domestic Meters (ADMs). An ADM is a meter installed in a domestic premise that:

- provides measured gas or electricity consumption data for multiple time periods; and
- is able to provide the relevant supplier with remote access to such data.

1.3. An ADM may or may not have the capability of being operated in prepayment mode.

1.4. This definition is designed to capture all meters with advanced functionality and is expected to include smart meters that comply with the technical specification mandated by government as part of the smart meter roll-out.

Background

The programme

1.5. The Programme is aiming to introduce a range of measures to support the roll-out of around 53 million smart meters by gas and electricity suppliers.

1.6. A key challenge in the policy design for the roll-out of smart metering has been to ensure that the 'smart' capability of meters is readily transferable on change of supplier, so that consumers receive a consistent level of service. To deliver this capability the proposed regulatory framework for smart metering includes a mandated technical specification that smart meters must comply with and the proposed creation of a Data Communications Company (DCC) licence. The holder of the DCC licence will manage communications with smart meters and data transfer from smart meters to relevant parties, including suppliers. This will ensure that there are consistent metering and communication technologies and standards in

⁸ The Spring Package document was published in February 2011 (13/11) and the Commercial Interoperability consultation in August 2011 (109/11).

place to facilitate the retention of the smart capability of the meter on change of supplier.

1.7. It is envisaged that from a date in 2014 suppliers will need to take steps to ensure that meters installed in domestic premises, whether new or replacement, comply with the technical specification set out by the Programme.

Foundation stage

1.8. In advance of DCC services becoming available, currently expected to be in 2014, the Programme is supporting a Foundation Stage to enable suppliers to prepare for mass roll-out. Many suppliers are using, or are planning to use, this opportunity to trial smart meter deployment and operation. Some suppliers have determined that there is a positive business case for them to install a significant number of meters in advance of the mandated rollout of smart metering. Estimates of the numbers of meters that may be installed on this basis vary but there are indications that up to five million such meters may be installed in domestic premises by 2014. This equates to approximately 10% of the total smart meter rollout.

1.9. The meters being installed at present are not built to a common technical specification. This may cause difficulties for a customer with an ADM on change of supplier as the new supplier may not be able to utilise the meter's advanced functionality.

1.10. We note that under the Programme's proposals, ADMs that do not comply with the technical specification may be installed in domestic customers' premises between now and the beginning of mass roll-out, and would not need to be replaced by a compliant smart meter until 2019. The proposals made here are therefore dealing with transitional issues that may affect a limited but significant number of domestic customers⁹.

1.11. Though the definition of ADM includes compliant smart meters, we consider that our proposals do not place an onerous obligation on suppliers with respect to compliant smart meters. This is because our proposed licence conditions may be seen as a prelude to the requirements that will be placed on smart meters in the future. We consider that if a supplier complies with the requirements under the Programme, it is likely to have complied with our proposals as well.

The Spring Package consultation

1.12. Our proposals have built on an earlier, wider consultation ('The Spring Package') which examined a range of market and consumer issues associated with 'early smart'. In a chapter of the Spring Package, titled 'Commercial Interoperability', we sought views on introducing new obligations for suppliers. These proposed obligations related to the terms offered by an installing supplier to a new

⁹ Assuming up to five million domestic customers may have a meter with advanced functionality installed by 2014, and an annual supplier switching rate of 16.5% for these customers, then up to one million customers may be affected by the proposals we are making.

supplier for use of an ADM and the particular issues raised by smart prepayment meters.

1.13. In light of the Spring Package consultation responses, we consulted on specific proposals in August 2011.

Early evidence of consumer experience

1.14. Our proposals have been informed by early evidence from Consumer Focus of instances where customers have experienced difficulty when trying to switch supplier if they have an ADM meter installed. Examples include:

- A supplier that is unwilling to take on the customer unless they have their meter exchanged; or
- A supplier taking on the customer only to realise they have an ADM installed, and stating they will need to have it replaced with a traditional meter or the customer must return to their previous supplier.

1.15. While the evidence is limited to a small number of customers, we have been keen to understand why problems have arisen as part of the process of developing effective, practical remedies.

Initial consultation

Commercial Interoperability consultation

1.16. Our August 2011 consultation set out our initial proposals with the aim of minimising the difficulties faced by customers with ADMs, and facilitating the retention of advanced functionality by the customer, on change of supplier. **Our proposals were designed to apply to domestic customers only.**

1.17. Our revised proposals sought to strike a balance between the interests of consumers in being able to continue to switch supplier effectively whilst retaining the advanced capability of the meter. They also sought to provide a framework for suppliers to conduct sufficient trialling and testing to enable suppliers to undertake the mass roll-out of smart meters in a timely and cost-efficient manner. Our proposals sought to be proportionate to the scale of the potential consumer detriment identified, recognising the potential short-term and long-term benefits for consumers. The Programme estimates that the smart meter roll-out will deliver net benefits over time of £19 billion¹⁰.

¹⁰ Net present value of gross benefits over 20 years. *Impact assessment: Smart Meter rollout for the domestic sector* and *Impact Assessment: Smart meter rollout for the small and medium non-domestic sector*.

Structure of this document

1.18. Chapter 2 explains our final proposals in respect of each of the proposed obligations on suppliers and the reasons for these decisions including a summary of responses to the August 2011 consultation.

1.19. Chapter 3 provides a summary of our proposals, sets out the next steps in the timing of the statutory consultation and the process by which parties may appeal our proposed licence modifications.

1.20. The appendices include the proposed licence conditions, the official statutory notice of our proposed licence conditions, an assessment of the impact of our proposals and a list of data items that suppliers may communicate on a change of supplier.

Related work areas

1.21. We have published a consultation paper on the Review of Metering Arrangements¹¹ that seeks to facilitate an orderly and efficient transition out of traditional meters, aligned to the ramp-up of smart meters.

1.22. Ofgem is working to develop a strategy for shaping market development from the platform of smart metering. Changes to current market arrangements will be required to enable this development to happen in a way that benefits all consumers and protects their interests during the roll-out and beyond. We recently published a consultation¹² seeking views on the scope of our work. This is the first step in defining our strategy.

¹¹ *Review of Metering Arrangements: Decision and consultation on transition to smart meters, Ofgem, December 2011.*

¹² *Promoting smarter energy markets, December 2011.*

2. Final proposals

A summary of our final proposals for additional licence obligations on suppliers and our reasoning behind these final proposals which includes including our analysis of our initial proposals set out in our August 2011 consultation document and responses to that consultation.

Customer information

Enabling customers to make well informed switching decisions

The Issue

2.1. It is important that consumers are able to make well-informed decisions about switching supplier before they sign or otherwise commit to entering into a supply contract. This is particularly the case for consumers with ADMs, given the potential resulting loss of meter functionality or in extreme cases the potential inconvenience of a meter exchange.

2.2. Ofgem therefore proposed in our August 2011 consultation document that an obligation should be placed on new suppliers to explain any loss of ADM functionality that the consumer may experience if they switch to them. For example, this could include the inability to take remote meter readings or the ADM's inability to support tariff information on a display device.

Final Proposals

2.3. Our final proposals are:

- To place obligations on new suppliers to take steps at an early stage in the process of engaging with the prospective customer to:
 - ascertain whether the customer has an ADM installed
 - if they do have an ADM, find out what the functionality of that meter is, and
 - inform the customer of any functionality they may lose if they switch to them.
- We consider that this proposed licence obligation will require suppliers to carry out the steps detailed above before a customer signs a contract or commits to enter into a contract over the phone or via the internet¹³.
- To place an obligation on suppliers to explain the level of meter functionality that could be lost on change of supplier, before installed an ADM.

¹³ This reflects Ofgem's interpretation and intended effect of the legal drafting "Before the licensee enters into a Domestic Supply Contract with a Domestic Customer..."

Discussion

2.4. The majority of respondents agreed with our initial proposal to place an obligation on the new supplier to explain any loss of functionality on change of supplier. Some respondents raised concerns that it would be difficult to ascertain whether a customer has an ADM¹⁴ and that the new supplier may not know that a customer has an ADM installed until after the switch has taken place. Suppliers considered that these risks were higher where the customer committed to changing supplier online.

2.5. Ofgem notes that suppliers already need to ask customers for some information regarding their meter during the switch process (for example, in trying to ascertain whether customers have Economy 7 and Radio Teleswitch meters). Ofgem recognises that in certain circumstances, new suppliers could experience difficulties in finding out whether an ADM is installed. However, we consider that this is recognised by the proposed licence drafting which requires suppliers to take 'all reasonable steps' to determine whether a customer has an ADM and its level of functionality. This may be undertaken by suppliers asking questions to help customers identify whether an ADM is installed at the premises and/or through a centralised registration database.

2.6. Suppliers could make changes to their training materials and other aids to ensure customers are asked whether their meters is an an ADM. Ofgem recognises that this will not necessarily ensure that all ADMs are identified in all circumstances. It will be suppliers' responsibility to ensure that they have undertaken all reasonable steps to identify whether an ADM is installed at the premises, determined the level of functionality of that meter, and ensured that the customer is aware of what functionality may be lost if they switch supplier.

2.7. For online sales, we would expect the customer to be asked whether they have an ADM installed. This may include, but is not limited to online guidance for the customer to help them determine whether their meter is an ADM. We note that many customers change supplier through online switching sites and we would encourage suppliers to work with these sites to help them identify whether an ADM is installed at the premises.

2.8. Some respondents have indicated that one method for identifying whether a customer has an ADM, would be to have a 'flag' in a centralised database, such as ECOES or SCOGES¹⁵, that would enable a supplier to identify the type of meter at that meter point. We consider that a change to centralised registration databases may be an effective way to enable suppliers to identify whether a customer has an ADM installed. We would encourage the industry to make the necessary changes to these databases to enable them to better identify ADM customers. We note that there is work ongoing under the Programme to identify the changes needed for

¹⁴ Suppliers and consumer groups have informed us that many customers with clip-on devices (a device that is linked to the meter and shows their consumption) believe that they have an ADM or smart meter installed.

¹⁵ The electricity centralised online enquiry service (ECOES) and the single centralised online gas enquiry service (SCOGES) are online portals that provide access to details on all supply points for electricity and gas respectively.

legacy systems in preparation for smart meters in the Foundation stage. Any other industry changes related to ADMs will need to co-ordinate with the Programme to avoid duplication of effort.

2.9. Respondents have indicated that once compliant smart meters are being rolled out, it will become more difficult to gauge from a conversation with the customer whether they have a compliant or non-compliant smart meter installed, though both types of meter will fall within the definition of an ADM. We will review this issue closer to the mass roll-out commencement date to determine whether any further steps are necessary.

2.10. Some respondents were concerned that a requirement on new suppliers to inform the customer of any reduction of their ADM's functionality that might arise following the switch, could make the switching process more onerous and potentially discourage customers from switching supplier. Though we note that this is a risk, we consider the benefits to customers in being able to make well-informed switching decisions, outweigh these concerns. We further note that suppliers should be informing prospective customers of any such changes to the service they receive¹⁶ and ensuring communications materials are appropriate to the needs of the customer¹⁷.

2.11. Some respondents proposed that there should be an additional requirement on the installing supplier to inform the customer before the meter is installed that they may experience a loss of functionality if they switch supplier.

2.12. We agree, in principle, that this would aid the customer in making an informed decision as to whether they have an ADM installed at their premise. However, we note that there is a risk that the supplier may use this opportunity to discourage a customer from changing supplier. On balance, we consider that there are disincentives for a supplier to over emphasise the potential difficulties in changing suppliers at the time of the installation of the ADM, as this could result in the customer refusing to have an ADM installed. We consider that this additional requirement will help ensure that customers can make an informed decision before they sign or otherwise commit to entering into a supply contract, and that this is therefore in the interests of consumers.

2.13. Suppliers should also take care not to mislead any customer by stating that having an ADM installed would prevent them from switching supplier in the future. Were suppliers to mislead customers in this manner we may investigate the occurrences and consider whether there had been a breach of existing licence conditions or legislation designed to protect consumers or whether a licence condition would be needed to prevent such behaviour recurring.

2.14. We note that the Programme is developing proposals relating to the requirements on suppliers to provide information to consumers about compliant

¹⁶ Under consumer protection law including The Consumer Protection from Unfair Trading Regulations 2008.

¹⁷ Referring where applicable to the Supply Licence and relevant legislation including the Equality Act 2010.

smart meters. These proposals include requirements on suppliers to develop a code of practice for the smart meter installation visit and a broader consumer engagement strategy. We will continue to work with the Programme to help ensure that our obligations on suppliers with respect to ADMs are consistent with those for compliant smart meters.

Providing customers with accurate consumption information

The Issue

2.15. It is important that any information displayed to the customer on the ADM or related display device continues to be accurate following change of supplier. We were concerned that confusing information could be provided to consumers if the display device continued to display information relating to their previous supply contract.

2.16. We were keen to ensure that any historical consumption data was not removed by the outgoing supplier on change of supplier. We considered that this information was valuable to customers (e.g. in managing usage).

Final Proposals

2.17. The outgoing supplier will not be permitted to remove historic consumption information from the ADM or the display device, after change of supplier.

2.18. The outgoing supplier will be required to disable any misleading information relating to tariffs on the electronic consumption display (ECD) and ADM immediately prior to losing the customer.

Discussion

2.19. The majority of respondents agreed with this proposal and considered that incorrect price / tariff information is the variable that is most likely to lead to customer confusion. Some respondents considered that they could delete tariff information from the ECD but most respondents indicated that it would be expensive to adapt their system to enable them to remove tariff information in its entirety but suggested setting the tariff information to display a zero value instead. We consider that 'zeroing' the tariff, in tandem with clear communication with the customer as to why the tariff has been set to zero, will be sufficient to comply with this proposal as it is unlikely that a customer will interpret a zero tariff to mean that they are receiving free energy. Coupled with our proposals to require the new and installing supplier to notify the customer of what may happen to meter functionality on change of supplier, we consider that the risk of consumer detriment in this instance is minimal.

2.20. Most respondents agreed that it was appropriate to place an obligation on suppliers not to remove consumption data on change of supplier to ensure

consumers continue to receive the benefits of having an ADM. We continue to consider that it is appropriate to include this obligation on suppliers.

2.21. One respondent raised a concern that suppliers may send marketing messages to a display device through the ADM, even after the customer has switched to another supplier. We have no evidence that suppliers currently place marketing messages on the display device and therefore consider a licence condition preventing this, to be unnecessary at this time. If this capability was developed, we may re-assess this issue in the future.

Prevention from charging domestic customers for a prepayment ADM exchange

The Issue

2.22. In our August 2011 consultation document, we recognised that despite both the outgoing and the new supplier's best efforts, it may not be possible for a customer to switch supplier and continue to receive services based on ADM functionality. In some instances, a meter exchange may be required to enable the new supplier to continue to provide required services, for example prepayment services.

Final Proposal

2.23. Where a customer with an advanced prepayment meter changes supplier and a meter exchange is required to enable the customer to continue paying via prepayment, the new supplier will be prohibited from charging the customer.

Discussion

2.24. The majority of respondents agreed with this proposal. We note that currently it is not common practice for suppliers to charge for a meter exchange.

2.25. One respondent considered that this protection for consumers should be extended to include all ADMs, not just those operating in prepayment mode. We are not aware of any circumstances other than prepayment that may require a meter to be exchanged in order to continue to supply gas or electricity, and we consider that the commercial incentives to not replace the meter are likely to outweigh the incentives to replace the meter. We are therefore proposing not to extend the licence condition to ADMs that are not prepayment meters.

2.26. Subsequent to the publication of our initial proposals consultation, we have become aware of a few recent instances where customers with 'non-prepayment' ADMs have had their meter exchanged on change of supplier. We consider that the final proposals set out in this consultation should decrease the likelihood of these meter exchanges by facilitating interoperability on change of supplier. However, we

will continue to monitor this situation and if meter exchanges for non-prepayment customers were to continue we will reassess whether further changes are required.

2.27. Some respondents argued that the new supplier should not have to absorb the costs of the meter exchange and that the costs should fall on the installing supplier for installing a meter that is non-interoperable. In the section titled 'further measures' we discuss the advantages and disadvantages of allowing the new supplier to pass the costs of a meter exchange back to the installing supplier.

2.28. Having reviewed these responses we consider that it is appropriate to take steps to protect domestic customers using prepayment functionality of ADM meters in the circumstances described above.

Supplier interoperability

Provision of information to new supplier

Issue

2.29. We considered that increasing availability of information about the ADM installed at a particular premise would help a prospective supplier ascertain whether services relating to advanced functionality could be maintained.

Final Proposals

2.30. We propose that there should be a licence obligation requiring the installing supplier to make information available to the new supplier, where the new supplier requests it¹⁸, which would:

- enable the new supplier to determine the functionality of the existing ADM, and
- enable the new supplier to maintain all or part of the services relating to the existing ADM.

Discussion

2.31. The majority of respondents agreed with our proposal but some respondents requested greater clarity on how this information exchange will take place.

2.32. One respondent considered that this proposal was not practical and that establishing a common mechanism for this information exchange could be costly and time consuming, particularly as it would likely be an interim measure. We disagree with this view as we do not consider that a common mechanism is necessary to

¹⁸ The new supplier may request this information where a customer has informed them that they wish to change supplier.

facilitate this information exchange. Suppliers may use various methods and/or third parties to communicate this information.

2.33. We note that many suppliers already have third party service providers in place that would be able to pass on this information on their behalf. We also consulted on what information the new supplier would need from the installing supplier to maintain advanced services. We received detailed responses regarding data items that were considered to be useful. These included the identity of the current ADM service provider, the communications technology used, the make and type of the meter, the commercial terms for taking on the meter and whether any related smart appliances communicate with the meter. We have included a more detailed, but not exhaustive, list in Appendix 5.

Provision of ADM services to new suppliers

The Issue

2.34. Where a supplier is installing significant numbers of ADMs (as opposed to limited deployments to support trialling and testing), a greater number of domestic customers will risk losing ADM related services and face the potential disruption of a meter exchange on change of supplier.

2.35. To address this risk, we proposed that large suppliers with a significant deployment of ADMs should be required to provide a service to the new supplier that would enable it to maintain ADM functionality on change of supplier.

Final Proposals

2.36. The installing supplier must take all reasonable steps to make available, at the request of a new supplier, all services that the new supplier would reasonably require to maintain ADM functionality.

2.37. This proposal is subject to a materiality threshold, dependent on the number of customers, number of ADMs and types of ADMs that they have.

Discussion

2.38. The majority of respondents agreed that the provision of a service to the new supplier would make it easier for the new supplier to provide ADM services to a customer after change of supplier.

2.39. Some respondents sought clarity as to whether the installing supplier had to provide these services or whether this could be done through an agent or third party service provider. We consider that if a supplier is using a third party service provider to carry out their communications with the ADM, then directing the new supplier to this service provider would be sufficient to meet this obligation, providing that the

new supplier has the ability to contract with this service provider (ie the outgoing supplier does not have an exclusive contract with the service provider).

2.40. Some respondents considered there should be a minimal level of ADM services that should continue after change of supplier. We consider that there is potential consumer benefit to be had in maintaining all ADM services. Therefore we would expect the service provided by the installing supplier to enable the new supplier to maintain all ADM services once the customer had switched supplier.

2.41. One respondent considered that historical trials should be exempted from this requirement. In some trials, older communications technologies may have been used that may make it impractical for the customer to retain ADM functionality on change of supplier. In particular, ADMs that were part of the Energy Demand Research Project (EDRP)¹⁹. We are proposing to include a mechanism in the licence condition, by which suppliers could request that these meters not be subject to this obligation.

2.42. If there are exceptional circumstances that mean that certain specific types of meters cannot maintain ADM functionality after change of supplier, we would expect suppliers to contact us and provide rigorous evidence on why they cannot retain functionality on change of supplier for certain meters.

Volume thresholds

Issue

2.43. We proposed that the above obligation – the provision of ADM services to new suppliers – should only apply to a subset of all suppliers. We proposed that the obligation should only apply to ‘large’ suppliers with a significant deployment of ADMs.

Final Proposals

2.44. The obligation for the installing supplier to provide services to the new supplier, if the customer has an ADM installed, will only apply to suppliers with greater than 250,000 domestic customers and:

- more than 25,000 ADMs, and/or
- more than 5,000 ADMs operating in prepayment mode.

2.45. We note that the requirement to provide services **will not apply to smaller suppliers** (ie those with under 250,000 customers) irrespective of how many ADMs they have installed.

¹⁹ The EDRP was a major suite of trials carried out in Great Britain to investigate consumers’ responses to improved feedback on their energy use. It was managed by Ofgem on behalf of DECC.

Discussion

2.46. The majority of respondents agreed with the 25,000 and 5,000 ADMs thresholds but there was significant opposition to the 250,000 domestic customer threshold. We discuss these two issues in turn below.

250,000 domestic customer threshold

2.47. Many respondents consider that the number of ADMs installed by a supplier determines the potential for consumer detriment if interoperability is not possible on change of supplier. For this reason they argue that if a supplier exceeds either the 25,000 or 5,000 ADMs thresholds, the additional obligation of providing services to the new supplier should apply, irrespective of whether the supplier has more than 250,000 domestic customers.

2.48. Though we recognise that there is some merit in this argument, we do not want to discourage innovative ADM offerings from smaller suppliers and we consider that offering a service to the new supplier is less of a burden as a proportion of overall costs for large suppliers. We note that service providers are developing offerings for suppliers that would enable the new supplier to maintain advanced functionality and we anticipate that a number of the large suppliers will look to use a third party service provider.

2.49. We further note that if a large supplier started a significant deployment of ADMs and did not provide a service to the new supplier, there would be greater potential for consumer detriment considering that they have a larger customer base that may be affected by a lack of interoperability when they switch supplier. In this case, we think it is proportionate and appropriate to link the level of regulation to the potential scale of the consumer detriment.

25,000 and 5,000 ADMs thresholds

2.50. We support the trialling of ADMs by suppliers as we consider that this is likely to result in suppliers being better prepared for the mass roll-out of smart meters. We also consider that trialling of ADMs helps to inform and engage consumers. Any issues identified through trialling are likely to result in less consumer detriment by volume than if they were to occur once mass roll-out is underway.

2.51. One respondent considers that the 5,000 threshold should be a limit on the number of prepayment ADMs that can be rolled out before the DCC goes live. We disagree with putting absolute limits in place as we do not want to unnecessarily stifle any innovative offerings in the ADM market.

2.52. Most respondents agreed with these thresholds but one respondent considers that the limits should be higher, at 100,000 and 10,000 ADMs respectively.

2.53. We note that it is currently unclear what level of trialling will occur in the foundation stage and how many ADMs will be rolled out that may not be interoperable on change of supplier.

2.54. At present we consider that 25,000 and 5,000 are reasonable estimates for a threshold of ADMs that will be sufficient to allow trialling while simultaneously preventing significant consumer detriment. As the Foundation stage progresses and greater numbers of ADMs are rolled out, the evidence available may indicate that these thresholds may have to be adjusted. If this were to be the case, we may re-assess these thresholds in the future.

Clarity on threshold volumes

2.55. Some consultation responses requested greater clarity on how the thresholds would apply so we have set out examples below. If a large supplier has installed more than 25,000 ADMs, which are not operating in prepayment mode, then it must offer services to the new supplier for all of the ADMs it has installed, including those that were installed before the licence condition came into force.

2.56. If a large supplier has installed more than 5,000 prepayment ADMs, then it must offer services to the new supplier for all prepayment ADMs that it has installed, including those that were installed before the licence condition came into force.

2.57. These thresholds are specific for gas and electricity so if a supplier has 30,000 electricity ADMs and only 20,000 gas ADMs, then it only needs to offer services to the new supplier for its electricity ADMs.

2.58. We note that having fewer ADMs than the threshold does not exempt a supplier from the proposed obligation to provide any information needed by the new supplier to maintain ADM functionality.

Further measures

Additional incentives to minimise meter exchanges

Issue

2.59. A meter exchange may occur if the installing supplier is operating an ADM in prepayment mode and is not offering an acceptable service to the new supplier for them to be able to maintain prepayment services. We note that although the installing supplier may offer a service to the new supplier, this may not be on terms acceptable to the new supplier or the service might be technically incompatible with the back-office systems of the new supplier. As such, the new supplier may choose to decline the service offered and a meter exchange may be required²⁰.

²⁰ See paragraph 2.22 onwards for what obligations would apply in this instance.

2.60. We were keen to sharpen the incentives on suppliers to avoid a meter exchange in these instances. To facilitate this we proposed that a £60 charge be payable by the installing supplier to the new supplier where a meter replacement is required by the new supplier to continue prepayment services.

Final Proposals

2.61. We are not proposing to place any licence obligations on suppliers to address this issue at this stage. However, we will keep this under review.

Discussion

2.62. The majority of respondents were in favour of the £60 charge and considered it an appropriate proxy for the cost of a meter exchange. They considered that it would act as an incentive for suppliers to ensure that any ADMs installed were interoperable.

2.63. Some respondents did not consider the £60 charge to be appropriate. They were concerned that it would stifle innovation by acting as a barrier to those suppliers rolling out innovative prepayment ADMs and may act as a disincentive on suppliers preventing the development of prepayment ADM offerings.

2.64. We note the concerns of some respondents that this proposal may reduce the incentives on new suppliers not to accept terms from the installing supplier, as it would enable them to carry out a meter exchange and recover £60 from the installing supplier. The installing supplier would not only incur the cost of this nominal charge but would also incur the cost of the installed meter not being utilised. Our aim is to minimise the instances of meter exchanges and this proposal has the potential to provide a perverse incentive that is at odds with this aim and may lead to consumer detriment.

2.65. We further note that the installing supplier currently has a commercial incentive to ensure that the meter remains installed. If the meter is removed then the installing supplier may have to pick up the cost of the meter. Therefore this acts as an incentive on the installing supplier to ensure that they provide sufficient information or services to the new supplier so that a meter exchange is not required.

2.66. We therefore are not proposing to introduce this obligation as it is not sufficiently clear that it would achieve its aim of encouraging interoperability for prepayment ADMs. However, if in the future there is a significant deployment of prepayment ADMs that are not interoperable on change of supplier, we would revisit this proposal if there was evidence of consumer detriment.

Duration of obligations

2.67. A principle of better regulation²¹ is that regulation is reviewed on a regular basis, and that regulation is removed where it is no longer needed.

2.68. With this in mind, we are aware of the work that is going on within the Programme and that as more obligations are placed upon suppliers, as the smart metering roll-out progresses and the DCC goes live, some of the obligations we are proposing may become redundant.

2.69. We consider that our proposals are likely to be necessary until the mass roll-out of smart metering is complete. Hence we are proposing that we will review these obligations in 2019, when the mass roll-out is forecast to be complete, with a view to removing them.

2.70. We will also keep our proposals under review in the shorter term to identify the scope for refinement in light of experience, and in the context of the Programme's progress.

²¹ The Better Regulation Framework is a government strategy that is aiming to ensure regulation is implemented effectively and consistently across various organisations including government departments and regulators such as Ofgem.

3. Conclusions and next steps

3.1. We have discussed our original proposals and the responses to our consultation in the previous chapter. To summarise we have provided a list of our final proposals below. Appendix 1 contains the draft licence conditions that we are proposing to apply to gas and electricity suppliers.

Summary of final proposals

3.2. We propose the following obligations should apply to all gas and electricity suppliers and are only applicable for customers with ADMs:

- Where a customer is switching supplier, the customer must be informed, before they sign or otherwise commit to entering into a supply contract, by the new supplier of any meter functionality and associated services they may lose if they switch supplier.
- Where a supplier is installing an ADM, it must inform the customer that they may lose meter functionality on change of supplier.
- Before a customer switches supplier, the existing supplier must delete any misleading information on the meter and the home electronic display relating to that supplier's charges.
- Before a customer switches supplier, the existing supplier must ensure that all historic consumption information is retained on the meter and the home electronic display.
- Where a customer is switching supplier, that customer should not be charged if a meter exchange is required to maintain prepayment functionality.
- Where a customer is switching supplier, the installing supplier must provide information to the new supplier, to enable the new supplier to determine whether the customer has an ADM installed and the functionality of that meter.
- Where a customer is switching supplier, the installing supplier must provide information to the new supplier, to enable the new supplier to maintain the functionality of the meter after the customer has switched.
- Where the installing supplier is a large supplier, it must provide services, on a change of supplier, that are required by the new supplier to maintain ADM functionality.

3.3. Subject to consideration of any formal objection to the notice of proposed modifications outlined above and attached, and having regard to the Authority's principal objectives and statutory duties, the Authority proposes to modify the Licences as per the accompanying notices. The proposed modification to the Licences are set out in Appendix 1 of this statutory notice detailing the modification that Ofgem is proposing to make to the Gas and Electricity Supply standard licence conditions under s23(2) of the Gas Act 1986 and s11A(2) of the Electricity Act 1989.

3.4. As confirmed in the Notice, any formal objections should be made to Ofgem by 3 February 2012. Subject to formal objections, Ofgem will aim to modify the licences and bring the modifications in to force by the 30 June 2012.

Any formal objection should be sent (preferably in electronic form) by no later than 5pm on 3 February 2012 to:

tabish.khan@ofgem.gov.uk

Tabish Khan
Smarter Markets
Ofgem
9 Millbank
London SW1P 3GE

If you have any comments or questions on this statutory consultation, please contact Tabish Khan on 020 7901 7137 or Tabish.khan@ofgem.gov.uk

3.5. After the consultation closes, we will consider any representations made and publish our final decision. Relevant parties will have 20 working days from the date of the publication of the final decision to appeal these licence condition modifications to the Competition Commission.

Implementation timescales

3.6. Respondents to the consultation indicated that the necessary changes to supplier systems and their internal working practices, to enable suppliers to meet these obligation, may take between three and eighteen months, though most respondents were comfortable with a six month implementation timescale.

3.7. Subject to the Competition Commission's discretion to suspend the decision on application, the licencees must comply with the final decisions 56 days from the date we publish a notice of the modifications to the licence conditions pursuant to s23 of the Gas Act 1986 and s11A of the Electricity Act 1989. This will be after the statutory consultation has closed and we have taken account of respondent's views.

Supporting documentation

Licence conditions

3.8. Appendix 1 to this document contains our proposed changes to both gas and electricity supplier licences.

3.9. Appendix 2 is the official notice of the changes we are making and includes information on how these licence modifications may be appealed.

Impact assessment (Appendix 3)

3.10. We have assessed what we consider the impacts of making these changes are likely to be on suppliers and consumers. This has been informed by the costs that some respondents to our Commercial Interoperability consultation provided.

3.11. We do not consider the cost impact of these proposals to be substantial and therefore consider that the consumer benefits are likely to outweigh the costs incurred by gas and electricity suppliers.

3.12. The impact assessment details what we consider to be the main costs and benefits of our proposals. The impact assessment is summarised in Appendix 3 to our consultation document.

Appendix 1 – Proposed licence conditions

SCHEDULE

PROPOSED MODIFICATION PURSUANT TO SECTION 11A OF THE ELECTRICITY ACT 1989 OF THE STANDARD CONDITIONS OF THE ELECTRICITY SUPPLY LICENCES GRANTED OR TREATED AS GRANTED UNDER SECTION 6(1)(d) OF THE ELECTRICITY ACT 1989.

1. Proposed new standard condition 25B

The text below constitutes the proposed new standard condition 25B:

Condition 25B. Commercial interoperability of Advanced Domestic Meters

Information to be provided in respect of Advanced Domestic Meters

25B.1 Where the licensee is the Relevant Electricity Supplier to a Domestic Customer with an Advanced Domestic Meter and that Domestic Customer intends to change their Electricity Supplier and continue to use that Advanced Domestic Meter at the Domestic Premises, the licensee must take (and ensure that any Representative takes) all reasonable steps to ensure that, as from the date another supplier becomes the Relevant Electricity Supplier for those premises:

(a) no misleading or inaccurate information relating to Charges for the Supply of Electricity will be provided to the Domestic Customer via an Electronic Consumption Data Display and the Advanced Domestic Meter which relates to, or arises from, the Domestic Supply Contract previously entered into between the licensee and the Domestic Customer; and

(b) all historic consumption information is retained on the Electronic Consumption Data Display and the Advanced Domestic Meter.

25B.2 Before the licensee enters into a Domestic Supply Contract with a Domestic Customer, the licensee must take (and ensure that any Representative takes) all reasonable steps to:

(a) ascertain whether an Advanced Domestic Meter is installed at the Domestic Premises;

(b) where an Advanced Domestic Meter is installed at the Domestic Premises, obtain information about the functionality of that Advanced Domestic Meter;

(c) communicate to that Domestic Customer in plain and intelligible language an explanation of the nature and effect of any potential variations to the services related to the functionality of the Advanced Domestic Meter installed at the Domestic Premises that might be to the disadvantage of the Domestic Customer.

25B.3 Where paragraph 2 applies, the licensee must take and retain (and ensure that any Representative takes and maintains) appropriate record of its compliance with the requirements of paragraph 2 of this condition.

25B.4 Before the licensee or any Representative installs an Advanced Domestic Meter, the licensee must take (and ensure that any Representative takes) all reasonable steps to communicate to that Domestic Customer in plain and intelligible language a statement to the effect that if they change their Electricity Supplier they may not be able to receive the same services in respect of the functionality of the Advanced Domestic Meter installed at their Domestic Premises.

General obligation to help maintain Advanced Domestic Meter services

25B.5 This paragraph applies where:

- (a) the licensee is the Installation Licensee; and
- (b) a Proposed New Electricity Supplier has requested the information referred to in paragraph 6 from the Installation Licensee.

25B.6 Where paragraph 5 applies, the Installation Licensee must, as soon as reasonably practicable, provide the Proposed New Electricity Supplier with such information as is reasonably required to:

- (a) enable the Proposed New Electricity Supplier to determine the functionality of the existing Advanced Domestic Meter at the particular Domestic Premises (hereafter referred to as 'the relevant premises'); and
- (b) enable the Proposed New Electricity Supplier to maintain all or part of the services related to the functionality of the existing Advanced Domestic Meter at the relevant premises.

25B.7 The licensee is not required to give information under paragraph 6, if doing so would seriously and prejudicially affect its commercial interest or might be expected to be incompatible with any legislation, rule of law or licence condition.

25B.8 The licensee is not required to give information under paragraph 6 which it could not be compelled to produce or give in evidence in civil proceedings before a court.

25B.9 After receiving a request from a Proposed New Electricity Supplier, the Installation Licensee must:

- (a) offer to provide the Proposed New Electricity Supplier with all such services as are reasonably required for the Proposed New Electricity Supplier to maintain all of the services related to the functionality of the existing Advanced Domestic Meter at particular Domestic Premises (hereafter referred to as 'the relevant services'); and
- (b) if the offer referred to in sub-paragraph (a) is accepted, provide the Proposed New Electricity Supplier with the relevant services in accordance with that offer.



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25B.10 The Installation Licensee is not required to comply with paragraph 9 where it supplies electricity to fewer than 250,000 Domestic Customers and has installed or arranged to have installed fewer than:

- (a) 25,000 Advanced Domestic Meters; or
- (b) 5, 000 Prepayment Advanced Domestic Meter.

25B11 The licensee is not required to comply with Standard Condition 25B.9 to such extent as the Authority may from time to time direct.

Replacement of a prepayment Advanced Domestic Meter

25B.12 Where a Domestic Customer with a Prepayment Advanced Domestic Meter intends to change their Electricity Supplier at the same Domestic Premises to the licensee, and will continue to pay Charges for the Supply of Electricity in advance though a Prepayment Meter, but the licensee is unable to support the existing Prepayment Advanced Domestic Meter, the licensee must install or arrange to install a replacement Prepayment Meter at no charge to the Domestic Customer.

25B.13 The licensee must provide to the Authority, in such manner and at such times as the Authority may reasonably require, such Information as the Authority may require or deem necessary or appropriate to enable the Authority to monitor the licensee’s compliance with this condition.

25B.14 The licensee is not required to comply with paragraph 13 if it could not be compelled to produce or give the Information in evidence in civil proceedings before a court.

Definitions for condition

25B.15 For the purposes of this condition:

Advanced Domestic Meter	<p>means an Electricity Meter that, either on its own or with an ancillary device:</p> <ul style="list-style-type: none"> (a) provides measured electricity consumption data for multiple time periods and is able to provide such data for at least daily periods; (b) is able to provide the licensee with remote access to such data; and (c) is not a Electronic Consumption Data Display.
Electronic Consumption Data Display	<p>means an electronic device that provides information, by electronic display, for the purposes of ascertaining the quantity of electricity supplied to Domestic Premises and/or information relating to Charges for</p>


	the Supply of Electricity, in relation to Domestic Premises where an Advanced Domestic Meter is installed.
Installation Licensee	means the Electricity Supplier who has installed or arranged to have installed an Advanced Domestic Meter at the Domestic Premises of a particular Domestic Customer.
Prepayment Advanced Domestic Meter	means a Electricity Meter that, either on its own or with an ancillary device: <ul style="list-style-type: none"> (a) provides measured gas consumption data for multiple time periods and is able to provide such data for at least daily periods; (b) is able to provide the licensee with remote access to such data; (c) operating in a mode which requires a Domestic Customer to pay Charges for the Supply of Electricity in advance; and (d) a reference to the installation or removal of a Prepayment Meter includes the switching of any Electricity Meter to or from such a mode;
Proposed New Electricity Supplier	means an Electricity Supplier that is not the Installation Licensee and is seeking to enter into a Domestic Supply Contract with a particular Domestic Customer.

2. Proposed amendments to paragraph 7 of standard condition 22

The text below which is highlighted by track changes constitutes the drafting changes envisaged in respect of the proposed modifications to paragraph 7 of standard condition 22 (insertions are shown by underlined text):

22.7 The licensee is not required to comply with the obligations set out in paragraphs 22.2 or 22.3 in any of the following circumstances:

- (a) the licensee may breach regulations made under section 29 of the Act if it supplies electricity to the Domestic Premises, provided that it has taken all reasonable steps to prevent such breach from occurring;



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(b) without prejudice to paragraph 12 of standard condition 25B, it is not reasonable in all the circumstances of the case for the licensee to supply electricity to the Domestic Premises, provided that, if it is already supplying electricity to the premises, it has given at least seven Working Days' Notice of its intention to stop doing so; or

(c) the licensee requires the Domestic Customer to pay a Security Deposit and he does not do so, except if that deposit is in breach of any of the requirements in paragraphs 3 and 4 of standard condition 27 (Payments, Security Deposits and Disconnections).

PROPOSED MODIFICATION PURSUANT TO SECTION 23(2) OF THE GAS 1986 OF THE STANDARD CONDITIONS OF THE GAS SUPPLY LICENCES GRANTED OR TREATED AS GRANTED UNDER SECTION 7A(1) OF THE GAS ACT 1986.

1. Proposed new standard condition 25B

The text below constitutes the proposed new standard condition 25B:

Condition 25B. Commercial interoperability of Advanced Domestic Meters

Information to be provided in respect of Advanced Domestic Meters

25B.1 Where the licensee is the Relevant Gas Supplier to a Domestic Customer with an Advanced Domestic Meter and that Domestic Customer intends to change their Gas Supplier and continue to use that Advanced Domestic Meter at the Domestic Premises, the licensee must take (and ensure that any Representative takes) all reasonable steps to ensure that, as from the date another supplier becomes the Relevant Gas Supplier for those premises:

(a) no misleading or inaccurate information relating to Charges for the Supply of Gas will be provided to the Domestic Customer via an Electronic Consumption Data Display and the Advanced Domestic Meter which relates to, or arises from, the Domestic Supply Contract previously entered into between the licensee and the Domestic Customer; and

(b) all historic consumption information is retained on the Electronic Consumption Data Display and the Advanced Domestic Meter.

25B.2 Before the licensee enters into a Domestic Supply Contract with a Domestic Customer, the licensee must take (and ensure that any Representative takes) all reasonable steps to:

(a) ascertain whether an Advanced Domestic Meter is installed at the Domestic Premises;

(b) where an Advanced Domestic Meter is installed at the Domestic Premises, obtain information about the functionality of that Advanced Domestic Meter;

(c) communicate to that Domestic Customer in plain and intelligible language an explanation of the nature and effect of any potential variations to the services related to the functionality of the Advanced Domestic Meter installed at the Domestic Premises that might be to the disadvantage of the Domestic Customer.

25B.3 Where paragraph 2 applies, the licensee must take and retain (and ensure that any Representative takes and maintains) appropriate record of its compliance with the requirements of paragraph 2 of this condition.

25B.4 Before the licensee or any Representative installs an Advanced Domestic Meter, the licensee must take (and ensure that any Representative takes) all

reasonable steps to communicate to that Domestic Customer in plain and intelligible language a statement to the effect that if they change their Gas Supplier they may not be able to receive the same services in respect of the functionality of the Advanced Domestic Meter installed at their Domestic Premises.

General obligation to help maintain Advanced Domestic Meter services

25B.5 This paragraph applies where:

- (a) the licensee is the Installation Licensee; and
- (b) a Proposed New Gas Supplier has requested the information referred to in paragraph 6 from the Installation Licensee.

25B.6 Where paragraph 5 applies, the Installation Licensee must, as soon as reasonably practicable, provide the Proposed New Gas Supplier with such information as is reasonably required to:

- (a) enable the Proposed New Gas Supplier to determine the functionality of the existing Advanced Domestic Meter at the particular Domestic Premises (hereafter referred to as 'the relevant premises'); and
- (b) enable the Proposed New Gas Supplier to maintain all or part of the services related to the functionality of the existing Advanced Domestic Meter at the relevant premises.

25B.7 The licensee is not required to give information under paragraph 6, if doing so would seriously and prejudicially affect its commercial interest or might be expected to be incompatible with any legislation, rule of law or licence condition.

25B.8 The licensee is not required to give information under paragraph 6 which it could not be compelled to produce or give in evidence in civil proceedings before a court.

25B.9 After receiving a request from a Proposed New Gas Supplier, the Installation Licensee must:

- (a) offer to provide the Proposed New Gas Supplier with all such services as are reasonably required for the Proposed New Gas Supplier to maintain all of the services related to the functionality of the existing Advanced Domestic Meter at particular Domestic Premises (hereafter referred to as 'the relevant services'); and
- (b) if the offer referred to in sub-paragraph (a) is accepted, provide the Proposed New Gas Supplier with the relevant services in accordance with that offer.

25B.10 The Installation Licensee is not required to comply with paragraph 9 where it supplies gas to fewer than 250,000 Domestic Customers and has installed or arranged to have installed fewer than:

- (a) 25,000 Advanced Domestic Meters; or
- (b) 5, 000 Prepayment Advanced Domestic Meter.



25B11 The licensee is not required to comply with Standard Condition 25B.9 to such extent as the Authority may from time to time direct.

Replacement of a prepayment Advanced Domestic Meter

25B.12 Where a Domestic Customer with a Prepayment Advanced Domestic Meter intends to change their Gas Supplier at the same Domestic Premises to the licensee, and will continue to pay Charges for the Supply of Gas in advance though a Prepayment Meter, but the licensee is unable to support the existing Prepayment Advanced Domestic Meter, the licensee must install or arrange to install a replacement Prepayment Meter at no charge to the Domestic Customer.

25B.13 The licensee must provide to the Authority, in such manner and at such times as the Authority may reasonably require, such Information as the Authority may require or deem necessary or appropriate to enable the Authority to monitor the licensee’s compliance with this condition.

25B.14 The licensee is not required to comply with paragraph 13 if it could not be compelled to produce or give the Information in evidence in civil proceedings before a court.

Definitions for condition

25B.15 For the purposes of this condition:

Advanced Domestic Meter	means an Gas Meter that, either on its own or with an ancillary device: (a) provides measured gas consumption data for multiple time periods and is able to provide such data for at least daily periods; (b)is able to provide the licensee with remote access to such data; and (c) is not a Electronic Consumption Data Display.
Electronic Consumption Data Display	means an electronic device that provides information, by electronic display, for the purposes of ascertaining the quantity of gas supplied to Domestic Premises and/or information relating to Charges for the Supply of Gas, in relation to Domestic Premises where an Advanced Domestic Meter is installed.
Installation Licensee	means the Gas Supplier who has installed or arranged to have installed an Advanced

	Domestic Meter at the Domestic Premises of a particular Domestic Customer.
Prepayment Advanced Domestic Meter	<p>means a Gas Meter that, either on its own or with an ancillary device:</p> <p>(a) provides measured gas consumption data for multiple time periods and is able to provide such data for at least daily periods;</p> <p>(b) is able to provide the licensee with remote access to such data;</p> <p>(c) operating in a mode which requires a Domestic Customer to pay Charges for the Supply of Gas in advance; and</p> <p>(d) a reference to the installation or removal of a Prepayment Meter includes the switching of any Gas Meter to or from such a mode;</p>
Proposed New Gas Supplier	means an Gas Supplier that is not the Installation Licensee and is seeking to enter into a Domestic Supply Contract with a particular Domestic Customer.

2. Proposed amendments to paragraph 7 of standard condition 22

The text below which is highlighted by track changes constitutes the drafting changes envisaged in respect of the proposed modifications to paragraph 7 of standard condition 22 (insertions are shown by underlined text):

22.7 The licensee is not required to comply with the obligations set out in paragraphs 22.2 or 22.3 in any of the following circumstances:

(a) the licensee may breach regulations made under section 29 of the Act if it supplies gas to the Domestic Premises, provided that it has taken all reasonable steps to prevent such breach from occurring;

(b) without prejudice to paragraph 12 of standard condition 25B, it is not reasonable in all the circumstances of the case for the licensee to supply gas to the Domestic Premises, provided that, if it is already supplying gas to the premises, it has given at least seven Working Days' Notice of its intention to stop doing so; or

(c) the licensee requires the Domestic Customer to pay a Security Deposit and he does not do so, except if that deposit is in breach of any of the



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requirements in paragraphs 3 and 4 of standard condition 27 (Payments, Security Deposits and Disconnections).

Appendix 2 – Notice of proposed modifications to supply licences

NOTICE of proposed modification of the standard conditions of the gas supply licence UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority (“the Authority”) hereby gives notice pursuant to section 23(2) of the Gas Act 1986 (“the Act”) as follows:

1. The Authority proposes to modify all gas supply licences granted or treated as granted under 7A(1) of the Act by the addition of amending SLC 25B with regard to advanced meter interoperability.
2. The reason(s) why the Authority proposes to make this licence modification is to minimise consumer detriment that may be experienced through having an advanced domestic meter installed and to ensure that consumers can continue to benefit from advanced meter functionality when they change supplier.
3. The effect of the proposed modification(s) is to minimise the difficulties faced by customers, with ADMs, on change of supplier. The proposed changes are also designed to facilitate the retention of advanced functionality by the customer on change of supplier.
4. Relevant licence holders for the purposes of this Notice are all holders of gas supply licences at the relevant time with Standard Condition 25B in force.
5. A copy of the proposed modification(s) and other documents referred to in this notice are available (free of charge) from the Ofgem library (telephone 020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk).
6. Any representations to the proposed licence modifications may be made on or before 3 February 2012 to: Tabish Khan, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to Tabish.khan@ogem.gov.uk.
7. All responses will normally be published on Ofgem’s website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
8. If the Authority decides to make the proposed modification it will take effect 56 days after the decision is published.

.....
**Colin Sausman, Duly authorised on behalf of the
Gas and Electricity Markets Authority**

20 December 2011

NOTICE of proposed modification of the standard conditions of the gas supply licence UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (“the Authority”) hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (“the Act”) as follows:

1. The Authority proposes to modify all electricity supply licences granted or treated as granted under 6(1)(d) of the Act by amending SLC 25B with regard to advanced meter interoperability
2. The reason(s) why the Authority proposes to make this licence modification is to minimise consumer detriment that may be experienced through having an advanced domestic meter installed and to ensure that consumers can continue to benefit from advanced meter functionality when they change supplier.
3. The effect of the proposed modification(s) is to minimise the difficulties faced by customers, with ADMs, on change of supplier. The proposed changes are also designed to facilitate the retention of advanced functionality by the customer on change of supplier.
4. Relevant licence holders for the purposes of this Notice are all holders of electricity supply licences at the relevant time with Standard Condition 25B in force.
5. A copy of the proposed modification and other documents referred to in this notice are available (free of charge) from the Ofgem library (telephone 020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk).
6. Any representations to the proposed licence modifications may be made on or before 3 February 2012 to: Tabish Khan, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to Tabish.khan@ofgem.gov.uk.
7. All responses will normally be published on Ofgem’s website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
8. If the Authority decides to make the proposed modification it will take effect 56 days after the decision is published.

.....
**Colin Sausman, Duly authorised on behalf of the
Gas and Electricity Markets Authority**

20 December 2011

Appendix 3 – Impact Assessment

1.1 This appendix sets out our assessment of the potential impacts of the proposals discussed in the main document, against the key areas identified in our guidance on impact assessments²². This impact assessment draws on, and supplements, the qualitative analysis set out in the main body of this document. In this appendix, we have sought to compare the potential impacts of our proposals being implemented, against the potential impacts if our proposals were not implemented.

Impact on Consumers

Enabling customers to make well informed switching decisions

1.2 We are proposing new licence obligations on suppliers, to improve the information available to customers, with ADMs, on the potential impacts of switching supplier. We are proposing that suppliers should be required to inform customers of **any meter functionality and associated services they may lose if they switch supplier**. This would apply both to prospective suppliers gaining a customer with an ADM, and for suppliers installing ADMs.

1.3 We consider that these proposed obligations will help to address the risk of a consumer with an advanced meter unknowingly losing some functionality of the meter on change of supplier. Although it does not necessarily mean that advanced functionality will be retained in these circumstances, it should enable these customers to make more informed switching decisions.

1.4 Customers with an ADM are likely to assign a value to the extra functionality that their meter provides – though customers are likely to find the value of this benefit difficult to quantify. When making a decision to switch supplier, the customer should be able to weigh up this 'cost' of lost functionality against the benefits they will achieve from switching supplier.

1.5 If our proposals are not put in place, there is a risk that consumers may switch supplier without knowing that they may lose advanced meter functionality. This may result in a customer changing supplier to their detriment. This could result in consumer disengagement, potentially from both the process of switching supplier and from the roll out of ADMs/smart meters (with an associated impact on the expected cost savings for customers under smart meters).

Providing customers with accurate consumption information

1.6 We are proposing new obligations on suppliers to improve the accuracy of the information displayed on the advanced meter, upon change of supplier. These are obligations on the outgoing supplier to (i) delete any information on the meter and the home electronic display²³ relating to that supplier's charges; (ii) to ensure that all

²² *Guidance on Impact Assessments, Ofgem, December 2009.*

²³ A device that provides information, by electronic display, for the purposes of ascertaining

historic consumption information is retained on the meter and the home electronic display.

1.7 The first of these obligations is intended to mitigate the risk of a customer's advanced meter showing misleading information relating to their bill, ie information that is based on the contract with the outgoing supplier rather than the current supplier. If our proposal was not implemented, we consider there is a risk of consumers being misled, and potentially being provided with less accurate information. We consider that this obligation will reduce these risks, helping customers to better manage their supply.

1.8 In relation to the second new obligation, we consider that consumers will benefit from having access to historic information so that they can analyse their historic energy usage and use this information to manage future energy. In the absence of our proposed change, there is a risk that suppliers could remove this data once a customer switches away, and this may negate some of the consumer benefits of having an ADM²⁴.

Preventing suppliers from charging domestic customers for a prepayment ADM exchange

1.9 We have proposed to prohibit suppliers from charging customers the cost of replacing a meter on switch of supplier, if the meter replacement has been necessary to continue prepayment services. We consider that this proposal offers significant protection for customers on prepayment meters. If our proposal was not implemented, and a prepayment customer is required to pay for a potential meter exchange on changing supplier, then we assess that this is highly likely to discourage them from switching supplier.

Maintaining ADM services on a change of supplier

1.10 We have proposed that suppliers must cooperate to ensure a customer can retain ADM functionality when they switch supplier. Our proposals seek to make it more likely that consumers will be able to switch supplier and maintain their metering functionality, thereby enabling them to combine the advantages of having an ADM meter whilst still being able to switch in a competitive energy supply market. We are concerned that in the absence of this change, customers may be less likely to install and attain the benefits of an ADM, and if they have an ADM installed they may be less likely to change supplier.

the quantity of gas/electricity and/or information relating to Charges for the Supply of Gas/Electricity. This definition is likely to include most in-home display devices (IHDs).

²⁴ Consumers are likely to benefit from having access to historic information so that they can analyse their historic energy usage and use this information to manage their energy use.

Costs to suppliers

1.11 We consider that all of the proposals outlined in the section above are unlikely to have a significant impact on suppliers. We note that respondents to our October consultation also considered the costs to suppliers were not likely to be significant.

1.12 We recognise that suppliers may need to change existing processes as a result of our proposals, eg as part of the sales process they will need to determine if a customer has an ADM. We recognise that this may involve, for example, additional staff training and changes to existing training materials and other aids, but would not expect the costs associated with this to be significant. If our proposals were not implemented, we assess there to be a risk of increased complaints, which would involve additional costs to the supplier. Suppliers would also need to introduce new services and facilitate new data/information exchanges as a result of our proposals. Whilst it is for suppliers to determine the most cost-effective way of achieving this, we consider that these requirements could potentially be fulfilled by using existing methods of communication between suppliers including central industry systems

1.13 We recognise that our proposals could introduce other additional costs on suppliers, eg in cases where a PPM meter has to be replaced. Our understanding is that current practice among suppliers is to absorb the costs of a meter exchange if a customer wishes to switch from credit to prepayment. We consider that meter exchanges for prepayment ADMs are likely to be rare, and therefore are likely to place a negligible cost on suppliers when compared to the costs of meter exchanges they currently absorb.

Impact on competition

1.14 It is likely that a customer who is able to change supplier and maintain the advanced meter services they value will be more likely to switch to a supplier who can offer to maintain those services. We consider that our proposals help facilitate switching for consumers with ADMs and therefore have a positive impact in allowing consumers to participate in the competitive market.

1.15 If a customer values their ADM functionality and is only able to receive this service from their current supplier, then other suppliers may be hampered in their ability to attract that customer. Our proposals aim to enable customers to retain ADM functionality after they switch supplier and so seek to remove a potential market distortion.

1.16 We are placing an obligation on the installing supplier to provide services to the new supplier on change of supplier, to allow the new supplier to maintain ADM services. This obligation is only applicable to large suppliers. We consider that this will enable smaller suppliers to compete in offering ADM services without placing potentially burdensome costs on them. We consider that these costs would be proportionately less significant for larger suppliers to incur.

Impact on sustainable development

1.17 Smart meters are an integral part of government's aim of transitioning to a low carbon energy sector²⁵. The successful rollout of smart meters and ADMs is largely dependent on positive consumer engagement.

1.18 Our proposals are designed to minimise consumer detriment through experiences with ADM and therefore are likely to have a positive impact on consumer engagements with ADMs. Therefore we consider that our proposals have an indirect beneficial impact on sustainable development.

Impact on health and safety

1.19 We do not consider that our proposals have any impacts on health and safety.

Risks and unintended consequences

1.20 We are taking forward our proposals in parallel with the Programme. As with any area or work that is developing in parallel to related areas of change, it is important that we continue to work closely with the Programme to seek to avoid any potential misalignment. We are already engaging with government and are satisfied that our proposals do not overlap or contradict the Programme's ongoing work. We will continue to keep this under review to ensure our proposed changes remain fit for purpose.

1.21 Some respondents to our October consultation were concerned that our proposals could require investment in systems that have a short shelf-life as they will be replaced by systems designed to support compliant smart meters. We consider that industry is best placed to determine the most efficient method for making the necessary system changes. However, we are satisfied that any system changes are unlikely to be significant, and we would expect any potential costs to be outweighed by the consumer benefit likely to arise from our proposals.

Assessment overall

1.22 We consider that our proposals will enable innovation, testing and trialling of advanced meters whilst encouraging suppliers to adopt strategies to inform customers and maintain advanced services where possible. We consider that our proposals put appropriate consumer protections in place given the numbers of ADMs we expect to be deployed. We also consider that our proposals allow for a competitive ADM market to develop, by not placing too onerous obligations on suppliers, thus benefiting future consumers.

1.23 Overall, we consider that the impacts of the proposals discussed above and in the main body of this document are likely to be largely beneficial to consumers and competition. Our proposals will have cost implications for suppliers but we consider that they are likely to be outweighed by the benefits to consumers and competition that our proposals seek to deliver.

²⁵ *Smart Metering Implementation Programme – Response to Prospectus Consultation, DECC, March 2011.*

Analysis

1.24 We estimate that up to 5 million ADMs may have been rolled out before suppliers switch to rolling out fully compliant smart meters.

1.25 If we assume that customers with ADMs switch at a rate of 16.5%²⁶ then up to 1 million customers with ADMs may switch supplier before 2014 and our proposals may apply to all of these supplier transfers.

1.26 Of these switches, we forecast that:

- 91% of customers will switch to a supplier that may have to revert the meter to dumb mode
- 6% will switch to a supplier that supports Smart ADMs (in 'non-prepayment' mode)
- 3% will be switches involving prepayment ADMs, either to other suppliers that support ADMs (but not necessarily in prepayment mode) or that do not support ADMs.

1.27 We estimate that the vast majority of these switches will be customers switching to suppliers that may not support their meter so it is important that we put in place proposals that allow suppliers to maintain ADM functionality after they change supplier.

1.28 We note that only 3% of switches will involve prepayment ADMs and these are the meters most likely to need a meter exchange on a change of supplier. This suggests that meter exchanges are unlikely to be a significant issue but nevertheless we have put in place proposals to limit the potential for consumer detriment.


1.29 This is a very basic calculation but is designed to illustrate the scope of the level of switching that may affect ADMs, and the significance of putting proposals in place that address the risks of consumer detriment when switching supplier. We have set out the limitations to our analysis below.

Limitations to our analysis

1.30 The 5 million ADMs estimate is based on forecast rollout figures we have received from suppliers²⁷.

²⁶ Based on switching figures in the *Energy Supply Probe – Initial findings report, Ofgem, 2008*.

²⁷ Based on the figures we received from suppliers at the end of Phase 1 of the Programme – updated with projected rollout numbers that suppliers have provided to us since.



Supporting effective switching for domestic customers with smart meters

1.31 The switching rate of 16.5% is based on the switching rate of domestic customers in general, not just those with ADMs. This is only a proxy and we recognise that many suppliers have informed us that customers are less likely to switch if they have an ADM installed.

1.32 This analysis only provides statistics until 2014 as it is unclear whether the DCC will be able to support the ADMs that are currently being installed and so we do not have sufficient information to estimate the number of switches between 2014 and 2019, that will be captured by our proposals.

1.33 It is unclear how the prepayment ADM market will develop and so we have had to estimate that the proportion of prepayment ADMs compared to other ADMs is the same proportion of credit to prepayment meters in GB.

Conclusion

1.34 We recognise that there are significant limitations to our analysis but consider that it is prudent to provide readers with an estimate the number of customers that may be impacted by issues associated with the ADM.

Appendix 4 – Glossary

A

Advanced Domestic Meter (ADM)

A meter installed in a domestic premise that provides measured gas or electricity consumption data for multiple time periods, and is able to provide the relevant supplier with remote access to such data. An ADM may be operated in prepayment mode.

C

Commercial Interoperability

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

Consumer

A person or organisation using electricity or gas at a meter point.

Consumer Focus

The statutory consumer champion for GB consumers.

D

DataCommsCo (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)

Government department responsible for energy policy and climate change mitigation policy.

E

Early movers

Suppliers who are already installing meters with "smart" functionality.

Electronic Consumption Data Display (ECD)

An electronic device that provides information, by electronic display, for the purposes of ascertaining the quantity of gas supplied to Domestic Premises and/or information relating to Charges for the Supply of Gas, in relation to Domestic Premises where an Advanced Domestic Meter is installed. An **IHD** may fall within this definition.

Energy Demand Research Project (EDRP)

The EDRP is a suite of large scale trials across Great Britain that seeks to better understand how consumers react to improved information about their energy consumption. The EDRP has trialled a range of methods of providing customers with improved feedback on their energy consumption and other associated interventions. These interventions include smart meters, enhanced energy consumption information on bills, energy efficiency information, visual display units, incentives to reduce or shift consumption and community engagement.

Energy Suppliers (suppliers)

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

F

Foundation stage

The period before market readiness for the mass rollout is fully established. This is also referred to as Phase 2 of the Smart Metering Implementation Programme.

I

In-home display

A device capable of displaying near real-time information on energy consumption in a readily accessible form. Government is mandating that all domestic consumers should be offered an in-home display as part of the roll-out of smart metering.

Interoperability

The ability of diverse systems, devices or organisations to work together (interoperate) on both a technical and commercial basis.

L

Licence

Transporting, shipping and supplying gas; and generating, transmitting, distributing and supplying electricity are all licensable activities. Ofgem grants licences which 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.

M

Metering services

Metering services include installation, provision, and maintenance of both electricity and gas meters. In electricity, metering services also refers to the retrieval, processing and aggregation of consumption data.

O

Ofgem

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

P

Pre payment meter (PPM)

The type of meters that require payment for energy to be made in advance of use or 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 mode

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

S

Smart meter

A meter which, in addition to traditional metering functionality (measuring and registering the amount of energy which passes through it) is capable of providing additional functionality for example two way communication allowing it to transmit meter reads and receive data remotely. It must also comply with the technical specification set out by the Programme.

Smart Metering Implementation Programme ("the Programme")

The central change programme established by government to develop and implement the regulatory framework for the roll-out of smart metering.

Spring Package

A package of measures put forward by Ofgem in February 2011 to help ensure consumer interests remain protected in response to early moves by suppliers to start installing meters with smart functionality before the regulatory framework for the roll-out is in place. Protections around remote switching to prepayment and remote disconnection for domestic consumers were implemented in October 2011.

T

Traditional meter

A meter for registering the consumption of gas volume or electrical energy, which does not have any advance or smart metering functionality as prescribed or approved by government.

Appendix 5 – Meter information

Below is a list of information that respondents thought they would need to know, to maintain ADM functionality after change of supplier.

Identity of current metering service provider	Meter type
Communications information (WAN and HAN details)	Identity of other ancillary devices (model and make) and their capability
Security protocols	Prepayment broker (if applicable)
Commercial terms for taking on ADM services	Identity of installing supplier
Version and configuration of meter firmware and software	Details of head-end software
Number of registers on meter	Configurability of time of use parameters
Remaining battery life	Ability to support prepayment
MPAN/MPRN	

Appendix 6 - Feedback Questionnaire

1.35 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:

- Do you have any comments about the overall process, which was adopted for this consultation?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand, could it have been better written?
- To what extent did the report's conclusions provide a balanced view?
- To what extent did the report make reasoned recommendations for improvement?
- Do you have any further comments?

1.36 Please send your comments to:

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