



Carlan Wickham-Hills
Energy Retail Association

*Promoting choice and value for
all gas and electricity customers*

Email: philip.cullum@ofgem.gov.uk

Date: 30th November 2011

Dear Carlan,

Ofgem's response to the ERA's consultation on a draft code of practice for the installation of smart electricity and gas meters

We welcome the opportunity to respond to the ERA's consultation on a draft code of practice for the installation of smart electricity and gas meters.

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

Ofgem E-Serve managed the policy design phase of the Smart Metering Implementation Programme on behalf of DECC. This concluded with the publication of the Government's Response in March 2011. In our view, the March Response set out a robust high-level policy design for the smart meter roll-out, consistent with protecting the interests of consumers.

We recognise the Government's decision to task industry with responsibility for drafting the code, in consultation with interested parties including consumer groups. Once drafting is finalised, the Authority will be responsible for approving the completed code in line with the requirements set out in the finalised licence conditions. The Authority will also be responsible for approving proposed modifications to the code once it is in place. While suppliers will need to have their own monitoring arrangements in place, Ofgem will also be responsible for assessing suppliers' compliance with the code. We will continue to engage proactively with DECC, industry, consumer groups and other interested parties in the coming months to assist in the development of suitable code arrangements.

We welcome the progress made to date by the ERA in developing a draft installation code, recognising that significant work is needed in some areas. We also recognise the intent of the big six energy suppliers to begin applying a number of the principles set out in the current draft code on a voluntary basis before the end of the year. This early voluntary action should provide a testing ground for those suppliers who seek to roll out meters with advanced functionality in the coming months. It should act as one useful channel for identifying areas where the draft code requires improvement.

This consultation represents a positive step in the development of installation code arrangements. We set out below several key principles that we believe will remain important to the continuing development of installation code arrangements. We also highlight areas where we believe particular focus is needed in the coming months to ensure that the final code arrangements are fit for purpose.

Consumers at the heart of the code

The interests of consumers must continue to play a central role in the development of the Smart Metering Implementation Programme as a whole. The installation visit will provide a unique opportunity for consumers to access the benefits offered by engaging with their smart meter and, for domestic consumers, the In-Home Display. The code should help to facilitate this engagement, while also ensuring that consumers, particularly vulnerable consumers, are fully protected. We strongly believe that keeping consumer interests at the heart of the code design process remains crucial to the development of suitable code arrangements.

Ongoing stakeholder engagement

We note the consultation exercises and workshop events that the ERA has hosted to date to provide a platform for stakeholder engagement in the code design process. We recognise their value in providing a channel for all interested parties to contribute to the design of appropriate code arrangements. We believe that further progress on the development of complete code arrangements can be best achieved by the ERA continuing to develop code drafting in close consultation with all interested parties, recognising the valuable input that consumer groups will have in shaping a consumer-facing code.

Protecting and engaging micro-business consumers

Many of the protections and engagement measures that are needed for domestic customers around the installation visit will be equally important for micro-business customers. Strong protections and engagement measures around the installation visit will be crucial in maintaining confidence in the Programme and enabling consumers to make the most of the benefits that can be gained from positive engagement during the installation process.

The March Response described how developing a single code covering both the domestic and smaller non-domestic sectors would provide for broad consistency of arrangements across sectors and avoid the need to duplicate governance and monitoring arrangements. The Response also described how developing a single code would still allow different requirements to apply in the smaller non-domestic sector where appropriate, for example around minimising business interruptions.

The ERA's draft code is designed to cover both domestic and micro-business customers. We understand that ICOSS is currently undertaking work to consider whether the current approach to code design will, in their view, be suitable for customers outside of the domestic sector. While we recognise that this work may add value, we remain mindful of the conclusions reached by the Government in the March Response around the clear benefits of having a single code.

Our primary concern at this stage is to see the development of code arrangements for micro-business customers keep pace with the development of arrangements for domestic customers. We therefore urge the ERA, ICOSS and other interested parties to build the momentum needed to develop a code which incorporates suitable arrangements for both domestic and micro-business customers.

Governance arrangements

Once an installation code is in place, good governance will be an essential feature of its ongoing management. It is important that effective and robust governance arrangements for the installation code are developed, for example to help ensure that proposed modifications to the code are efficiently managed and that all parties, including consumer groups and small suppliers, can engage in this process. We look forward to seeing the ERA continue to work with stakeholders over the coming months to develop governance arrangements with this core principle in mind.

Compliance monitoring

Installation code arrangements will need to include robust monitoring processes. Suppliers will want and need to be able to monitor their own compliance with the code to allow them to recognise areas where customer service can be enhanced. Effective monitoring arrangements will also be important to allow suppliers to demonstrate their compliance to the Authority.

In order for this monitoring to be of real value, suppliers will need to record and retain sufficiently detailed information to enable a proper assessment of their compliance with the code. We are also mindful of the need to avoid excessive burden on suppliers. We look forward to seeing the ERA continue to work with stakeholders over the coming months to develop monitoring arrangements that strike an appropriate balance between these principles.

Commercial activity during the installation visit

Effective customer safeguards and competition are crucial in helping to increase consumer engagement, enabling consumers to realise the full benefits of a competitive energy market. The installation visit will present a unique opportunity to engage consumers - but there is a need to strike a balance with ensuring that effective consumer safeguards are in place, particularly for vulnerable consumers. In our response to DECC's consultation on draft licence conditions for the code of practice, we set out our views in this area.

Related Ofgem activities

We are already taking steps to help ensure consumers remain protected before the new regulatory framework relating to smart meters is in place. Our Smart Metering Consumer Protections Package includes measures to protect consumers, particularly vulnerable consumers, where remote functionality is used to switch a customer to prepayment mode or for disconnection¹. These measures took effect on 1st October 2011. We have separately consulted on measures to facilitate the change of supplier process for domestic customers who are currently receiving meters with advanced functionality². In addition, we are considering how to ensure a smooth run-down of traditional metering, for example through our Review of Metering Arrangements (ROMA)³.

Future developments that build on a successful smart meter roll-out have the potential to benefit consumers and industry more widely. We are therefore developing a strategy for market development consequent to the roll-out, which will help unlock further value for consumers. In addition, DECC and Ofgem recently established the Smart Grids Forum to focus on future electricity network development. Strong engagement between the Programme and the Forum will help to ensure coherence between the smart meter roll-out and the development of electricity network policy. We will continue to seek views from consumers to inform our work in these (and all other) areas.

¹ *Smart Metering Consumer Protections Package*, Ofgem, September 2011

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Modification%20Direction.pdf>

² *Commercial interoperability: proposals in respect of managing domestic customer switching where meters with advanced functionality are installed*, Ofgem, August 2011

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Markets/sm/metering/sm>

³ *Review of Metering Arrangements*, Ofgem, December 2010

<http://www.ofgem.gov.uk/Markets/sm/metering/tftm/roma/Pages/roma.aspx>

We welcome your constructive engagement with us and other stakeholders thus far, and look forward to further discussions in the coming months. If you have any questions about this response in the meantime, please contact Jonathan Blagrove jonathan.blagrove@ofgem.gov.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Cullum', with a stylized flourish at the end.

Philip Cullum
Partner, Consumer Policy and Demand Insight