

February 2nd 2012

Dear Tabish Khan

Supporting effective switching for domestic customers with smart meters

Consumer Focus welcomes the publication of these final proposals and the associated licence consultation. The proactive approach taken by Ofgem is to be commended. However, we continue to have concerns that some customers could still face barriers to switching due to the rollout of non-compliant and non-interoperable smart metering systems, pre and post the introduction of the data communications company (DCC). This could result in increased customer inconvenience, additional waste and higher costs for consumers. As noted the proposals are designed to 'minimise the potential adverse impacts on customers', but are not sufficient to prevent all problems caused by early rollout.

There is a lack of clarity as to precisely how many customers could potentially experience detriment, even after these protections are introduced e.g. how many customers will have an advanced domestic meter (ADM) which is not captured by the proposed definition?; How many customers are expected to receive ADMs from a small suppliers? How many consumers will get them from big suppliers rolling out below the required thresholds? And how many suppliers, will in practice, continue to exchange the smart metering system or still require additional home visits?

The issues of early mover market dominance pre 2015 and the inter-changeability of appliances that run off of the home area network have not been assessed or addressed. Customers should not have to change their in home display/smart appliances, or lose functionality on them, if they switch supplier or move home, as is currently the case. This is particularly important where they have paid for an appliance such as an enhanced in home display.

We are also unclear what, if any, impact this approach will have on the time it takes the customer to switch supplier or the additional costs associated with running multiple parallel systems.

We recognise the benefits of trialling smart meters at scale to understand operational, technical and engagement challenges, particularly for prepayment. However, we continue to advocate that there should be some control on the total number of advanced domestic meters (ADMs) installed until such as stage that there is full interoperability, inter-changeability and confidence in the switching process. It is also important that the consumer engagement and benefits realisation strategies are in place before large numbers of meters are installed if customers are to fully access the advantages of smart metering.

We strongly support the commitment to keep these regulations under review and believe that Ofgem should revisit the proposals in the light of a possible small and/or all supplier

exemption. We seek clarity as to *if* and *how* Ofgem intends to monitor their effectiveness. Monitoring needs to evaluate the customer experience, the impact on the wider rollout Programme, as well as the resultant impact on costs and where these fall.

As noted in the document, Consumer Focus has received a small but growing number of reports of customers experiencing difficulty when trying to switch supplier after they have had their ADM installed. There is a real risk that if early recipients of smart meters have a poor experience it could undermine overall customer acceptance and engagement with rollout, with resultant negative impacts on the business case and failure to realise key consumer benefits. We hope to do further work to understand why this is happening, and suppliers current and proposed policies.

Further work is needed around how suppliers and third parties communicate with customers so they are able to make informed choices about whether or not to accept a smart meter or switch supplier. In particular, we believe that additional steps are needed to ensure that prepayment meter customers do not suffer disadvantage pre-DCC and can access the benefits of smart.

We are aware that some consideration is now being given to small supplier interoperability. This is welcome. It is important that barriers to switching in the non domestic sector are also addressed. Many micro-businesses, such as the corner shop, the local publican or high street hairdresser face similar challenges to those in the domestic sector.

Our latest comments are outlined briefly below. Consumer Focus's full rationale is available in our October 2011 response to Ofgem's consultation on commercial interoperability¹.

Proposed licence conditions

The same comments apply for electricity as for gas.

Information to be provided in respect of Advanced Domestic Meters

- Condition 25B.1 – states that the licensee must take (and ensure that any Representative takes) '*all reasonable steps*'. We seek clarity as to what '*all reasonable steps*' includes. Guidance or a definition will be needed for enforcement purposes.
- We query the definition of 'Representative' and if this is expected to cover switching sites - If not, could an alternative wording be found that captures this kind of commercial arrangement? This would be particularly valuable given the stated importance of suppliers working with online switching sites. Consumer Focus, will consider what steps we can take to encourage switching sites to undertake appropriate communication with customers as part of our role in managing the Confidence Code.

¹ <http://www.consumerfocus.org.uk/files/2009/06/Consumer-Focus-response-to-Ofgem-consultation-on-commercial-interoperability.pdf>

- Condition 25B.1 (a) states that suppliers must take all reasonable steps to ensure that ‘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”. This should read ‘no misleading or inaccurate information will be provided to the Domestic Customer’. This is to ensure that not just cost information but also consumption and other information such as any contact details on the display are accurate. This is particularly important as, despite our lobbying to the contrary, most in home displays do not and are not expected to show accurate information about charges. Most displays are also expected to be supplier branded which may cause customer confusion post switching.

It is important to ensure that the old supplier only disables the minimum information so the customer retains maximum functionality. We are aware that some suppliers report that this could be technically challenging and as they are losing the customer there is arguably little incentive to maximise the customer benefit. Ofgem should monitor practices in this area.

It is worth noting that Consumer Focus research found that 79 per cent of people were interested in having an energy display which shows information such as ‘how much energy you are using, how much this is costing you, carbon emissions and previous energy usage’². For many customers the display will be the face of smart meter - it is particularly important therefore that this works as effectively as possible.

- Condition 25B.1 (b) - we strongly support that “all historic consumption information is retained on the Electronic Consumption Energy Display and the Advanced Domestic Meter”. But we seek assurances that this information is not only retained but also easily available to customer prior to the data communications company being set up.

This licence condition is in line with the Government’s wider approach on data access and use and the proposed EU Energy Efficiency Directive³. The Government has stated that at least 13 months data should be stored on the meter to help facilitate consumers accessing their information while keeping data in the home⁴. Historic consumption information of this kind can help the households better manage their energy use, query historic bills, or make more informed switching decisions.

We also request that further consideration be given to whether other kinds of data should remain on the meter – for example data that indicates the quality of supply or number of outages could be used as evidence for compensation payments. Government has stated that customers should have a choice as to how their own data is used and by whom, except where it is required to fulfil regulated duties.

² This was an online Omnibus survey of 2,048 consumers aged over 18 years conducted by ICM on behalf of Consumer Focus. Full findings will be available in January 2011.

³ Directive of the European Parliament and of the Council on energy efficiency and repealing Directives 2004/8/EC and 2006/32/EC

⁴ <http://www.decc.gov.uk/assets/decc/11/consultation/smart-metering-imp-prog/2547-smip-call-for-evidence-180811.pdf> p.

- Condition 25B.2 (a) and (b). We support the proposal that before the licensee enters into a contract with the customer that they must take all reasonable steps to ascertain, whether an ADM is installed and its functionality. As with 25b.1, a definition or guidance around what are 'all reasonable steps' will be needed for monitoring and enforcement. It would be particularly helpful for Ofgem to actively encourage suppliers to make timely and appropriate changes to centralised registration databases to help identify whether a customer has an ADM installed.
- Condition 25B.2 (c) should ensure that suppliers communicate to the Domestic Customer not only any "potential variations to the services related to the functionality of the Advanced Domestic Meter" but also the possibility that they may need to have an additional home visit e.g. to replace the meter or upgrade their system to make it DCC compliant.
- Condition 25B.2 (c) – We strongly support this but suggest that customers are told about not only potential variations in service that "might be of disadvantage to the Domestic Customer" but also *any variations in service especially those that might be to the potential* disadvantage the customer. This kind of amendment might address concerns around the subjective definition of 'disadvantage'. We seek assurances that this would require suppliers to flag up any potential loss of service or functionality to enhanced IHDs, mobile applications or other smart appliances reliant on the system.
- Condition 25B.3 – this is a sensible inclusion. It is appropriate for the licensee to take and retain an appropriate record of its compliance with the requirements.
- Condition 25b.4 – We strongly welcome this licence condition. In addition to telling customers about any potential loss of service should they switch before an ADM is installed, customers should also be made aware that in some instances there may need to be a home visit e.g. if the supplier requests to exchange the meter, for upgrades to the system if it fails to meet the requirements of the data communications company (DCC) or the incoming supplier is unable to support the services provided especially when in prepayment mode.
- It would be valuable to have an obligation on suppliers to remind customers of their right to switch. We have had a handful of anecdotal reports of customers being told that they could not change supplier once they had a smart meter installed. We welcome Ofgem's recognition of this issue and the suggestion that it may investigate occurrences if they arise to consider if there has been a breach of licence conditions.

General obligation to help maintain Advanced Domestic Meter services

- Condition 25B.5 - we query how this will work if the customer has switched supplier before and has an ADM. Will there be a record of the original Installation Licensee?
- Condition 25B.6 (b) – we query why it would be sufficient for a supplier to only provide enough information to the Proposed New Supplier so that they can maintain

'part of the services' related to the functionality of the existing meter. The obligation should be "as far as reasonably practicable" to provide information to "enable the Proposed New Supplier to maintain *all* (delete part of) the services."

- Condition 25B.6 – we particularly support the requirement that the Installation Supplier must "as soon as reasonably practicable" provide the information needed. This should help minimise any potential 'gamesmanship' and help ensure that customers can still be switched in a timely manner.
- Condition 25B.7 states that the licensee is not required to provide information to the Proposed New Supplier, if doing so would seriously and prejudicially affect its commercial interest. We seek assurances that this exemption will not be exploited given the potentially broad definition of 'commercial interest' especially for those rolling out early.
- Condition 25B.9 (a) – we welcome that the Installation Licensee is required to offer the Proposed New Supplier all services that are needed to maintain "*all* the functionality" of the existing ADM.
- Condition 25B.10 – we do not support the smaller supplier threshold. While we understand and have some sympathy for the rationale, on balance Consumer Focus believes that the potential detriment to consumers and the reputational risk to the Programme are such that small suppliers should not be exempt.

We urge Ofgem to reconsider this approach in the light of the proposed possible small supplier exemption. If this is agreed, it could arguably result in even greater numbers of sub-optimal meters being put on the walls, and remaining on the walls for longer. As we understand it, estimates are that, if this proposal is adopted, there are likely to be 70,000-200,000 non-compliant meters that would be exempt. This is working on the basis that the end date of the exemption would be, six months after SMETS 1 comes into force in Q4 2012 and does not slip further.

Early monitoring of Consumer Direct contacts suggest that a disproportionate amount of the complaints about smart metering are linked to one of the small suppliers in particular. Customers complain about continuing to get estimate readings for one or more fuels after their smart meter is installed; being charged disproportionately high standing charges and cancellation fees should they wish to leave the supplier once a smart meter is installed; and unwelcome doorstep sales activity. We have had a number of media enquiries off the back of negative customer experiences. Ofgem should be confident of the quality of small suppliers' meters and their current approach before taking steps to incentivise installations.

- Condition 25B.10 (a) and (b) – as noted in our response of October 2012, we support the thresholds for larger suppliers.

Replacement of a prepayment Advanced Domestic Meter

- Condition 25B.12. We strongly support this licence condition to prevent suppliers from charging prepayment meter customers with ADMs if they need to have their PPM replaced should they switch. It would be totally unacceptable to charge customers in any circumstances but particularly inequitable for PPM consumers given that they tend to be disproportionately on low incomes⁵. Additional charges could have an especially detrimental impact on those that are already struggling to afford their bills. Any charges are likely to act as a further deterrent to switching in addition to the potential inconvenience and in some instances cost of having to take time off work to wait in for the meter installer where people are paid by the hour.

On average more than 8,500 prepayment meters are installed every week to recover debt⁶. There may therefore be instances where a customer with an ADM switches to the new supplier in credit mode and then is subsequently moved onto prepayment to recover a debt. We seek reassurances that in this instance, customers will also not be charged after their initial switch if they are put onto prepayment and have an ADM.

- Condition 25B.13 – fully support. It is important that the Authority can effectively monitor compliance with these licence conditions.

Definition for condition

Condition 25B.15

- Advanced Domestic Meter - we continue to query if the proposed definition of an ADM will capture all meters with advanced functionality as intended. For example, as we understand it, the following common Landis+Gyr ADMs (electricity 5236E-Y and 5236J-Y, Gas Libra 310, Gas Libra 310P) might not provide multiple time periods. DECC has issued an information request to suppliers to collect information about the functionality of ADMs that have been and are being installed. We seek reassurances that this definition is adequate and estimates as to the projected number of meters that will not be covered by this definition and therefore these protections.
- Electronic Consumption Data Display – we urge Ofgem to liaise with DECC before finalising the use of this term. There is already confusion about the difference between energy monitors, in home displays and energy displays. It is important that Ofgem doesn't use another term unnecessarily that could add confusion. As it stands, this definition covers online feedback mechanisms as well as stand alone displays which we fully support. This would be in line with proposals around standardisation of terms outlined in the Retail Market Review (RMR).

⁵ *The Retail Market Review – Initial Findings and Proposals March 2011* <http://bit.ly/fl6DuH> (PDF 3.98MB)

⁶ Source: Ofgem Social Obligations Monitoring Statistics Quarter 4 2009 – Quarter 4 2010 there were 444 342 PPMs installed to recover debt (8545 per week).

Proposed amendments to paragraph 7 of standard condition 22

- We fully support the aim of this amendment.

Impact assessment

Consumer Focus makes the following comments on the impact assessment:

- No consideration has been given to the impact on competition in the energy services, products and other markets. We understand that the home area network (HAN) and wider area network (WAN) standards are as yet undefined. This could create barriers to third parties who seek to offer products and services that run off of these systems. The decision to require the installing supplier to support the meters or offer services could have unintentional consequences by encouraging the proliferation of a given communications approach. This could result in restricting customers' choice to the Installing Supplier and further cement early movers' closure of this market. British Gas for example, has come under criticism from water companies and manufacturers, who are unable to piggy back on their system or offer the range of appliances they would like.
- The IA needs to consider the impact of the possible exemption of small and large suppliers from the rollout obligations. If these exemptions are introduced, then support for operation and maintenance of ADMs will be required far beyond 2019 – potentially to 2026. This along with the likely delay in the DCC start date may result in greater volumes of ADMs being installed and needing to be supported outside of the DCC framework. This could result in higher costs to operate parallel processes and systems until a compliant meter is installed and adopted by the DCC.
- As noted, we seek clarity as to the estimated number of consumers who would not be protected by these licence conditions. Both the projections with and without small and all supplier exemptions.
- There is a real risk that if early recipients of smart meters have a poor experience it could undermine overall customer acceptance and engagement with rollout, with resultant negative impacts on the business case and failure to realise key consumer benefits. Even if the number of customers not covered by this exemption is relatively small, it risks having a disproportionately costly and detrimental impact on rollout if things go wrong. This is not adequately reflected in the IA and the decisions around small supplier exemption.

General comments

- While in theory it is hard to imagine that suppliers would wish to reject or deter a customer with ADMs from switching to them, in practice calls to Consumer Direct and our discussions with at least one supplier suggest this may be the case. This can be because the customer is a debt-risk or because suppliers don't want the hassle or risk associated with supporting a sub-optimal system e.g. due to security concerns. We seek clarification as to what mechanisms are in place to ensure that customers with ADMs continue to have full access to the range of tariffs available on the market. E.g. Dynamic tele-switching meters who have switched away from the PES supplier generally only have access to 'best fit' tariffs, not tariffs with the same flexibility as the preserved tariff (they need specialist ones as linked to heating system)

- While we understand that there is a duty on suppliers to offer terms, we have concerns that these may be so unattractive that the customer would not want to take them up. SLC 25A on undue discrimination effectively means that suppliers have to justify any additional costs to serve if setting a higher price. Would the additional costs of servicing a non-compliant ADM enable suppliers to charge customers more and consequently restrict customer choice?
- We ask for a guarantee that the supplier installing a smart meter in advance of mandatory rollout will honour the terms offered by an alternative supplier if they cannot support their meter. For example, if customer with supplier X with an ADM tries to switch to supplier Y and the switch collapses because supplier Y cannot support the ADM, then Supplier X should be obliged to honour the unit rates supplier Y offered that customer. We recognise the billing challenges involved in this, but customers must not be out of pocket as a result of having an ADM installed.
- In February 2011, Ofgem's Spring Package consulted on whether there should be a requirement for terms for any service to be reasonable, non-discriminatory and transparent. It is important that suppliers have access to fair and cost reflective terms. Installing suppliers should ideally be obliged to ensure that all Terms and Conditions are fully transferable to any incoming new supplier.
- We continue to believe that no customer should be charged if they have to have their ADM replaced, not just prepayment meter customers. It would be unacceptable if householders are faced with additional charges – whether an up-front cost or higher tariff because their new supplier is unable to support their advanced metering system when they seek to switch. We urge Ofgem to monitor activity in this area and also any growth or introduction of longer term contracts that might effectively lock in consumers until asset costs are recovered.

In the response to the smart metering consultation DECC stated that “a wide range of respondents were in strong support of a ban on upfront charging for mandated smart meters...most concerns were over negative reactions from customers and the anticipated impact on rollout”. These concerns apply equally to ADMs on change of supplier. Customers will not make the distinction as to whether they have a fully compliant smart meter as part of mass rollout or an ADM which is semi-smart – the overall feeling will be that a smart meter ended up costing them more and caused them problems.

- Communications - greater consideration is needed around *what* information is provided, *when* it is provided and *how* it is delivered in a way that the customer can make informed decisions that meet their needs and minimise disruption. We welcome new obligations in addition to existing consumer protection law on ‘material information’ and current licence conditions. It is important that this information is clearly communicated to customers and we would encourage suppliers to share with consumer groups how they feel this can be best achieved. For face to face sales, for example, it might be possible to include it within the clarification check, whereas for switching sites or online sales a few questions could be incorporated into the site process. It is not sufficient to rely solely on information being included in the new

terms and conditions. Consumer Focus research found that only 26 per cent of people have read in full their energy terms and conditions⁷.

- We seek clarity as to what the process will be if sales assistance is unable to identify what kind of meter the customer has, or who installed it. At what point will the customer be given specifics about the service they will receive should they switch? It is also particularly important that customers are not held to the terms and conditions where there has been a loss of functionality of service and they were not made aware of this prior to the switch.
- Suppliers should make customers aware if their enhanced display or any appliance that runs on the HAN is likely to lose functionality or not work if they move home or switch supplier, prior to them purchasing them.
- We would welcome public guidance on how Ofgem sees competition law being applied to situations where a customer with a smart meter cannot switch supplier (or cannot do so without their meter being changed).

Prepayment

We welcome the focus on facilitating piloting of smart prepayment to help unlock the benefits pay as you go energy. However, we are mindful that the need for a meter replacement could act as a further barrier to switching for a group of customers who are already particularly sticky⁸. It is important that customers are not locked into an uncompetitive deal and receive improved customer service.

We urge Ofgem to consider how they can ensure that PPM customers are not unfairly disadvantaged pre-DCC. For example, should customers be offered some form of price guarantee and/or an assurance of an improved level of service if they accept and ADM? This could be for example a commitment that their tariff will never be more than the cheapest available PPM tariff in the market. Also that they will be offered the additional smart benefits such as remote top-up options and a prepay-ready in home display. If the customer was dissatisfied they would also still have the option to switch supplier, but their meter would be changed at no cost. It would also be particularly valuable to customers who have effectively been put on to ADM prepayment because of debt, not because of any real desire to use that payment method or to access the early benefits of semi-smart meters.

Consumer Focus PPM research suggests that prepayment customers potentially have the most to gain in terms of improvements in customer service from smart metering and in the long-run improvements in competition and a downward pressure on price. But, this will only happen with the right regulatory framework. For example:

- New and more convenient ways of paying, such as top-up and payment by text message, phone or internet mean that customers can avoid having to make trips to

⁷ This stretches from 20 per cent for 18-24s to 35 per cent of 55-64s. Those in social groups DE said they were most likely to read the Terms and Conditions; 30 per cent versus C1 23 per cent and AB 25 per cent.

⁸ In practice while more PPM customers are switching, the Ofgem Probe into the Energy Retail Market found that around 45 percent of those who did switch did not receive a price reduction⁸. Also, that overall, The Retail Market Review (March 2011) found that 40-60 percent of customers are 'sticky' (cannot switch or choose not to) and that vulnerable consumers are disproportionately represented in that group⁸.

prepayment outlets. This could remove the hassle of going out at night or in the winter to get the power back on.

- More accessible information on energy consumption via in-home displays and easier access to key data. For example, at the moment we understand that, on Quantum PPM meters, the consumer has to press a button over 30 times to access account information. In our recent qualitative research into attitudes toward prepayment⁹, none of those interviewed were aware that this information was available on their meter. These kinds of usability issues can be addressed.
- Removal of the dependency on tokens or cards to load payment onto meters – British Gas reports that in 2010 more than 300,000 replacement cards/keys were issued that result in cost and inconvenience to customers.
- Low credit warnings could be provided via the display – at present where a meter is located outside of the property eg in a basement, low credit warnings cannot be heard and it can be particularly difficult for customers to keep track of their energy use. This means they can unwittingly self-disconnect.
- Using the installation visit to plug the prepayment information gap that customers tell us exists– helping all customers understand how to more effectively use their energy meter and manage their energy use to budget more easily.

We look forward to discussing these issues with you further. For more information please contact zoe.mcleod@consumerfocus.org.uk

Yours sincerely



Audrey Gallacher
Director of Energy, Consumer Focus

⁹ *Cutting back, cutting down, cutting off, Self-disconnection among prepayment meter users.* Consumer Focus, July 2010, <http://consumerfocus.org.uk/g/4lx>. Page 12. This is the biggest ever study of PPM energy customers. The study explored attitudes to this payment method, and the extent to which PPM customers self-ration or self-disconnect.