

Response to Ofgem’s “Supporting effective switching for domestic customers with smart meters” decision document and statutory consultation

6th February 2012

Overview

This paper provides the Energy Retail Association’s (the ERA’s) response to the proposals as set out in the “*Supporting effective switching for domestic customers with smart meters – A final decision and statutory consultation*” document published on 19 December 2011. The response is due for submission to Ofgem on 3rd February 2012.

The ERA and its members fully support the need to establish appropriate measures to ensure that consumers can continue to benefit from switching supplier in the competitive retail gas and electricity markets, if they have a smart meter or ADM (Advanced Domestic Meter) installed. This is important for both stages of the forthcoming smart meter roll-out – the Foundation Stage and the Enduring roll-out.

This decision document sets out in detail, the proposed obligations on gas and electricity suppliers to be incorporated into the gas and electricity supply licences. The proposed standard licence conditions as drafted appear largely sensible, although some clarification may be required in a few areas that we discuss below.

The ERA and its members support the intentions behind the proposed obligations, however if these are to be adhered to in the 56 day timescale as described, then suppliers will have to use current industry systems, processes and data. This is likely to be sub-optimal as there is no current data to identify the Installation Licensee, or whether a meter is an ADM. If changes are deemed necessary to deliver compliance, then a reasonable timeframe is required for robust analysis of potential industry change and implementation and an owner for the definition of these (potential cross-fuel) changes is required. We understand that any facilitating industry changes could be progressed under the Interim Operating Model Sub-Group¹ of the SMIP (Smart Metering Implementation Programme). Due consideration will be needed to maximise the benefits to consumers and minimise the costs and industry effort needed to deliver any such arrangements.

Proposal 1: Customer Information – Enabling customers to make well informed switching decisions

Response: There are currently no industry processes or arrangements that would allow a supplier to identify that the meter installed at a customers’ premises is an ADM, or what functionality any ADM

¹ Although it must be noted that the emergence of this group has only recently been confirmed by the DECC programme, and details such as the Terms of Reference, the scope and objectives of the group, and its expected participants are still unknown.

Response to Ofgem’s “Supporting effective switching for domestic customers with smart meters” decision document and statutory consultation

6th February 2012

installed may have. From past experience, it is highly unlikely that this could be established with any degree of accuracy by simply asking the customer as part of the acquisition/sales process.

The ERA’s members all agree that if such details could be known at an early stage of the switching process, then informing the customer of the detail of any functionality that may be lost could be achieved reasonably quickly. However, there is no central source of information that would allow a supplier to establish whether an ADM is installed, or the detail of any functionality of the ADM installed.

The ERA’s members all support the proposal to tell customers that certain functionality of an ADM could be lost if the customer chooses to switch supplier in the future, and where necessary, whether site visits would need to be undertaken (to read the meter if remote functionality would not be available).

Proposal 2: Customer Information – Providing customers with accurate consumption information

The ERA’s members all support the proposal to not remove historical consumption information from the ADM or display device, after a CoS event. There is also unanimous support for the outgoing supplier to disable the display of any misleading information that is likely to confuse customers immediately prior to losing the customer.

Proposal 3: Prevention from charging domestic customers for a prepayment ADM exchange

The ERA fully supports the proposal to prevent suppliers from charging the customer for a meter exchange where a customer with an ADM installed wants to continue paying via prepayment after a CoS event.

Proposal 4: Provision of information to the new supplier

One of the major concerns with this proposal is placing obligations on a new supplier to obtain information about the functionality of an ADM installed at the premises from the ‘Installation Licensee’ before entering into a domestic supply contract with a customer. Current industry systems do not allow information to be recorded to allow the new supplier to identify who installed the meter, and therefore without suitable arrangements in place to deliver this, it will be difficult for a new supplier to comply with this obligation. This is particularly relevant where a customer has changed supplier more than once.

Rather than place obligations on an ‘Installation Licensee’ as is currently being suggested, it may be appropriate to consider whether it may be more relevant to have a more general obligation to on the outgoing supplier to make information available to any incoming supplier that will allow them to identify certain information about the meter currently in situ (as yet, to be defined), and who the

Response to Ofgem’s “Supporting effective switching for domestic customers with smart meters” decision document and statutory consultation

6th February 2012

Installation Licensee is. This may be a more suitable approach recognising the need to put what might be an interim set of arrangements in place for the short-term, until more robust and permanent arrangements are developed under the Interim Operating Model Sub-Group of the SMIP.

Proposal 5: Provision of ADM services to new suppliers

The ERA’s members all support the intentions of the proposal for the installing supplier to make services available (at the request of the new supplier). As described to our views on Proposal 4 above, under current industry arrangements it will not always be clear to the new supplier who the installing supplier was. More work is required to understand how this can work and whether or not new or amended processes need to be put in place.

Proposal 6: Volume thresholds

There is no consensus view from the ERA’s members regarding the volume thresholds proposed. As such, our members will respond on an individual basis.

Proposal 7: Additional incentives to minimise meter exchanges

The ERA’s members support Ofgem’s view that no licence obligations are required in this area. There are already sufficient incentives for suppliers to minimise costs, including the costs associated with unnecessary meter exchanges. However, it must be noted that in some cases, it will be inevitable that a meter exchange takes place, regardless of how ‘unnecessary’ it may seem to others – this has to be a supplier decision.

Additional issues for consideration:

Clarify the definition of ADM as drafted – The current definition of an ADM needs to be clearer. As drafted, the ERA believes that the current definition could be interpreted to include Electronic Key Meters (prepayment key meters) based on their ability to be configured to measure consumption for multiple time periods, and provide suppliers with remote access to data (as meter readings are transmitted to suppliers as part of a prepayment vend).

Existing industry model of supplier to agent – the current industry model is based on commercial arrangements between energy suppliers and commercial agents. The proposals as detailed will in some cases introduce the need for new supplier to supplier commercial arrangements. This is a completely new concept for the energy industry and it will take time for suppliers to put in place the commercial arrangements required.

A lack of industry process to support licence obligations and implementation timescales need to be achievable –The ERA and its members require more clarity in relation to Ofgem’s expectations

Response to Ofgem’s “Supporting effective switching for domestic customers with smart meters” decision document and statutory consultation

6th February 2012

based on the proposed licence obligations. The licence conditions as currently proposed could only be acceptable if the ‘all reasonable steps’ obligation is taken in the context of suppliers using only the existing industry processes and industry information available to them in order to demonstrate compliance.

The document recognises that in terms of implementation timescales, respondents had indicated that the necessary changes to internal systems and processes (to enable suppliers to meet the proposed obligations) may take between three and eighteen months. However, these implementation timescales are unlikely to be true if changes are required to external central industry systems and processes. To date, there has been no parallel co-ordinated development of central, industry-wide systems or arrangements to support the proposals as detailed.

It has been suggested that there could be an option for suppliers to put in place some form of interim arrangements to assist with delivering the expected objectives, until such times as any necessary industry changes are progressed under the Interim Operating Model Sub-Group² of the SMIP. If Ofgem continues with a 30th June 2012 implementation date, and interim arrangements are required, then industry should be consulted on whether there is merit for work to be co-ordinated to deliver these in a consistent and timely manner, whilst ensuring that the costs of implementing them are not disproportionate to the overall benefits. However, it is important to note that there is not a consensus view amongst the ERA’s members in the support for the suggestion of putting in place any form of interim arrangements (seen by some as potentially sub-optimal arrangements, and by others as more of a tactical stepped approach to delivery).

Finally, consideration should be given in relation to the suggested implementation date of the proposed licence changes. The initial Ofgem consultation, responses to, and subsequent drafting and publication of the decision document have all taken place prior to the most recent release of the Smart Metering Programme Plan from DECC which now sees the DCC go-live date delayed by approximately 6 months. The ERA would suggest that Ofgem must consider if there is sufficient benefit of delaying the implementation of the proposed licence changes by the same timescale which may allow some progress to be made on developing and implementing any industry changes necessary to support the proposed obligations. Alternatively, Ofgem could consider if it is more sensible to delay the implementation of the proposed licence conditions even further to align with the target date for Smart CoS processes becoming standard around October 2013. This would allow industry to deliver a single set of industry change to support the proposed licence conditions, and

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Response to Ofgem’s “Supporting effective switching for domestic customers with smart meters” decision document and statutory consultation

6th February 2012

would not prevent suppliers from putting in place their own bi-lateral interim arrangements to help facilitate CoS events in the meantime.

Recording compliance with obligations –The licence conditions as drafted place some very specific and detailed obligations on suppliers in terms of taking and retaining appropriate records of their compliance with the licence conditions. The ERA and its members share the view that these obligations appear to place an unnecessary and unprecedented burden on suppliers in comparison to any other current Standard Licence Condition. Under the principles of ‘better regulation’, the ERA’s members would question whether the requirements as described are actually necessary, when there are already sufficient incentives to comply with the stated obligations. The risk of breach of licence is disproportionate to the proposed measures.