

Consumer empowerment and protection: Note of workshop meeting

The roll-out of smart metering presents an opportunity to make retail energy markets work better for consumers. However, this will require complimentary changes to the arrangements that govern how industry participants, including suppliers and network operators, interact with each other and consumers. Ofgem is helping to drive necessary reforms through the Smarter Markets Programme. Our aim is for 'smarter markets' that are more efficient, dynamic and competitive. One of the projects within the Programme is seeking to ensure that the regulatory framework empowers and protects consumers to participate effectively in retail markets with widespread deployment of smart metering.

On 31 January 2013 Ofgem hosted a workshop with a wide range of stakeholders with the aim of exploring the risks and opportunities that smarter meters present and considering ways that existing arrangements may need to adapt. The workshop was attended by parties. There were presentations from Ofgem, Consumer Focus and EnergyUK. These are all available on Ofgem's website at the following link:

<http://www.ofgem.gov.uk/Markets/sm/strategy/cep/Pages/Consumerempowermentprotection.aspx>

We welcome the strong level of interest and engagement, and broad agreement that these are important issues for consumers and for retail markets operate in the future.

The purpose of this note is to provide a high-level summary of the key issues raised at the workshop and the areas for future focus.

Key opportunities

Among the key opportunities for consumers from the roll-out of smart meters that were raised through discussion were:

- **Securing the cheapest/best value tariff** – With the roll-out of smart meters, suppliers will have improved access to data that will allow them to better advise their consumers on the most suitable

tariff, as well as enabling them to design tariffs to meet consumer needs. For example, suppliers could develop new types of time-of-use tariffs that reward consumers for using energy at off-peak rather than peak times.

- **Improving the process for switching suppliers** – The advanced functionality smart meters provide should enable the provision of a faster, more reliable and cost-effective change of supplier process, which will facilitate competition and build consumer confidence. It also enhances the ability for collective switching.
- **Enhancing the scope for innovation** - The roll-out of smart meters should enable innovation in products and services including the availability of more 'bespoke products' and in turn promote more efficient use of energy.
- **Alter the dynamics of disconnection** - Smart meters provide ways to manage the risks of disconnection as any issues are likely to be highlighted at an earlier stage.
- **Improving consumer service** – With the availability of better data, suppliers should be able to improve their service in terms of more accurate billing, the ability to identify and address problems remotely (ie remote diagnostics) and generally to respond more quickly to problems. This should in turn improve the 'trust' between the consumer and the supplier.
- **Improving access to energy efficiency advice** – By providing better information about consumption patterns, smart meters will provide greater scope for consumers to be informed on improving their energy efficiency. It also provides consumers with the means to exercise greater control over their consumption.
- **Enhancing consumer engagement** – Consumers will be better informed about their consumption and in a better position to make choices regarding their energy usage.

Key risks

Among the key risks for consumers from the roll-out of smart meters that were raised through discussion were as follows:

- **Disengagement of consumers/ A low take up of smart meters/drop-off of behaviour change** – Consumer disengagement pre-installation could reduce take-up rates, increasing the rollout costs and the cost to serve. There are related questions around the appropriate treatment of remaining 'dumb' infrastructure and how costs should be borne. Consumer disengagement, both pre and post installation, could stop consumers from realising the benefits of smart metering.
- **Vulnerable consumers miss access to benefits** – Vulnerable consumers may be less engaged or less able to take advantage of the opportunities presented by smart meters.

- **Rise in prepayment** – Risks include failed top-ups and a lack of interoperability. However, at the same time there is an opportunity for reduced cost prepayment tariffs.
- **Scope for innovation is not realised** – The level of regulation must be proportionate such that it does not stifle innovation and increase costs to consumers.
- **Divergence of policies between Ofgem and the Department of Energy and Climate Change (DECC)** – There was some concern expressed that the full benefits of smart meters would not be realised if our and DECC’s Smart Metering Implementation Programme (“the DECC Programme”) were not fully aligned. This included the need for both bodies to communicate clear and consistent policy directions, with one example being around questions of appropriate cost allocation.
- **Data privacy perceptions** – Consumers may have concerns about who has access to their data and for what purpose. These concerns could in turn lead to fewer customers opting in to share more detailed consumption data, which could limit the scale of some consumer benefits.
- **Lack of interoperability of standards/single contact point for customers** – There is a risk that an absence of effective interoperability standards in related areas such as ‘smart appliances’ may limit the benefits for consumers. This relates to the challenges of cross regulatory co-operation and the importance of ensuring that there are joined up arrangements and a single contact point for consumers when problems arise.
- **A lack of measurement criteria of different policies** – A perception that there is no way of measuring how different reforms have contributed to success or caused problems.

Maximising the opportunities and minimising the risks

The workshop also discussed the actions that would have to be taken to maximise the opportunities as well as to minimise the potential risks. These represent areas for further consideration and include:

- **The engagement of consumers in the future of smart meters** – This is, in part, about developing an understanding of the best way to engage different consumer groups. It may require maintaining minimum standards of data provision and engagement. There are a number of bodies which could play an important role in supporting consumer engagement (eg data from the Department of Work and Pensions (DWP) to identify vulnerable consumers).
- **Facilitating innovation** – This means considering both existing/legacy issues but also how the regulation around smarter metering can best develop to support innovation.

- **Data access** – There needs to be a greater awareness of who will have access to smart meter data, how it will be used and the potential associated advantages for consumers.
- **The need to ensure appropriate consumer protections are in place** – It is necessary to consider how the current range of consumer protection measures might need to be changed or expanded to protect consumers in a smart world. This may include, for instance, protections which are further developed to cover the sales and marketing of new products. We will also need to ensure appropriate protections for customers without smart meters, as well as considering whether specific safeguards would be required for vulnerable consumers, such as measures to ensure the interests of hard to reach groups are reflected. There may be a need for greater flexibility in order to treat customers according to their needs.
- **Joined-up policy making** – A number of the issues highlighted at the workshop are relevant for the DECC Programme rather than Ofgem's Smarter Markets Programme. There remains a need to ensure appropriate levels of cooperation and consistency between Ofgem and DECC, and other regulators where appropriate.

Next steps

We are continuing to seek to identify the risks and opportunities for consumers from the smart meter roll-out, the likelihood and impact of those risks and opportunities, and to consider the prioritisation of those for our future work. We note that some of the issues raised at the workshop are more directly relevant to the DECC Programme than to Ofgem's Smarter Market Programme.

We plan to issue a consultation in Q3 2013 on the risks and opportunities for consumers from the smart meter roll-out. We will be seeking to engage with a wide range of stakeholders in advance of that publication to ensure it represents a comprehensive consideration of the relevant issues.

Separately we have kicked off analysis to explore the range of potential impacts time-of-use tariffs on different customer groups. It is intended that this work will also inform our October consultation.