

Consumer Empowerment and Protection in Smarter Markets

Consultation

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Overview:

Smart meters can bring significant benefits to consumers, helping them manage their energy use and expenditure, and improving their experience of the market. Smart meters also present potential risks.

This consultation document sets out Ofgem's proposals for a work programme which will ensure that the regulatory arrangements facilitate the realisation of the consumer benefits, and that consumers are empowered and remain protected in a smarter market and in the transition period towards it.

This document also describes how our proposals build on the strong foundation of our retail market reforms, and of previous work focused on protecting consumers' interests in light of the early introduction of smart meters.

The purpose of this consultation is to get stakeholder views on our proposed work programme.

Context

This document is the first consultation to be issued under the Consumer Empowerment and Protection project, which forms part of Ofgem's Smarter Markets Programme alongside the Change of Supplier, Electricity Settlement and Demand-Side Response (DSR) projects. The Smarter Markets Programme was set up in 2012 to proactively identify, and see implemented, changes to market arrangements to enable the development of smarter markets. We committed to further progressing this work under the theme of 'Promoting Sustainability' in our Forward Work Programme 2013-2014.

This consultation builds on extensive stakeholder engagement to date on the identification of consumer opportunities and risks in a smarter market.

Associated documents

<https://www.ofgem.gov.uk/ofgem-publications/42591/promoting-smarter-energy-markets-work-programme.pdf>

<https://www.ofgem.gov.uk/ofgem-publications/39350/retail-market-review-final-domestic-proposals.pdf>

http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/The%20Retail%20Market%20Review%20-%20Final%20non%20domestic%20proposals_22%20March_FINAL.pdf

<https://www.ofgem.gov.uk/publications-and-updates/smart-metering-spring-package-addressing-consumer-protection-issues>

<https://www.ofgem.gov.uk/ofgem-publications/57331/nondoms smartmeters springpackage openletnov.pdf>

<https://www.ofgem.gov.uk/ofgem-publications/41868/smart-meters-effective-switching.pdf>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43046/7225-gov-resp-sm-data-access-privacy.pdf

<https://www.ofgem.gov.uk/ofgem-publications/57320/consultation-smart-metering-installation-code-practice.pdf>

<https://www.ofgem.gov.uk/ofgem-publications/74752/tpi-con-doc.pdf>

<https://www.ofgem.gov.uk/publications-and-updates/consumer-vulnerability-strategy>

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Executive Summary

Smart metering technology will transform how energy markets operate, providing the platform for a smarter energy market.

For consumers, smart meters can bring significant benefits and opportunities, helping them manage their energy use and expenditure, empowering them through newly available data, and improving their experience of the market. However, smart meters also present potential risks which need to be considered and managed. As our principal duty is to protect the interests of present and future consumers, we want the regulatory arrangements to appropriately support the realisation of smart metering benefits. We also need to ensure that consumers are empowered and remain protected in a smarter market and the transition to it. These are the aims of the Consumer Empowerment and Protection project, which forms part of our Smarter Markets Programme looking to deliver better outcomes for all consumers through the creation of smarter markets that are more efficient, dynamic and competitive.

This consultation paper is the first to be published under the Consumer Empowerment and Protection project. It builds on a strong foundation of work to date, with early consumer protections for smart meters put in place through our 2011 Spring Package. As the start of the mass roll-out nears, we are proposing a work programme which takes a view towards a future smarter market and the transition period towards it. The focus is not on the smart metering roll-out itself; through the Smart Metering Installation Code of Practice a set of measures has already been introduced to guide this process.

Our proposed work programme has been informed by stakeholder views on potential risks and opportunities for consumers in a smarter market. We have grouped these into nine focus areas of work and prioritised them across three phases. For those focus areas in the first phase, we have also identified an initial set of high level objectives which can guide our work. A summary is provided in Table 1 below.

Phase and timings	Focus area	High level objectives
Phase 1: Foundation 2014-2015	1. Prepayment	<ul style="list-style-type: none"> • Prepayment as a clear, convenient and attractive proposition for consumers • Safe, easy and proportionate switching between prepayment and credit • Consumers protected from top-up failures • Robust understanding of self-disconnections and considered use of this information to support consumers • Available smart prepayment functionalities actively used to support consumer budget management and debt prevention (eg low credit alerts) • Optimal emergency and friendly credit arrangements • Prepayment consumers switching easily between suppliers with accurate and timely credit transfers or refunds
	2. Billing accuracy and options	<ul style="list-style-type: none"> • Accurate bills supported by convenient and effective billing frequency and payment method arrangements • No reliance on estimated meter readings • Optimal direct debit calculations based on accurate consumption data • No back-bills where the consumer is not at fault • Timely and accurate opening bills, final bills and rebates
	3. RMR for time-of-use	<ul style="list-style-type: none"> • Retail Market Review (RMR) reforms for simpler tariffs and clearer information applied equally to time-of-use tariffs • No unnecessary barriers to time-of-use tariffs due to RMR reforms

Consumer Empowerment and Protection in Smarter Markets

Phase and timings	Focus area	High level objectives
Phase 2: Innovation 2016-2018	4. Tariff innovation	<i>(For future consideration)</i>
	5. Provision of consumption data & information	
	6. Marketing & sales	
Phase 3: Emerging market models 2018-2020	7. Consumers without smart meters	<i>(For future consideration)</i>
	8. Empowerment and protection for advanced DSR	
	9. Debt prevention and management tools for a smarter market	

Table 1: Phases, focus areas and objectives for the proposed work programme

While the proposed focus areas and phasing reflects our current view on priorities, we will still remain flexible once the work programme has been confirmed following this consultation. We will keep market developments under review and adjust our focus, prioritisation and phasing as necessary.

This work programme has been designed to support and reinforce the objectives of our Retail Market Review reforms. These will create a simpler, clearer and fairer market, and are needed to rebuild trust and restore consumer confidence in engaging in the market. This is important in and of itself; it will also create a more positive and effective starting point from which consumers can engage with smart meters.

We will consider micro-businesses as well as domestic consumers for the proposed work programme. This mirrors the scope of the government's smart metering implementation programme; it is also in line with our growing focus on micro-businesses in general, most recently through our Retail Market Review.

We will also incorporate and apply our recently published consumer vulnerability strategy across all focus areas of the Consumer Empowerment and Protection project. We will specifically aim to establish whether smart metering could empower consumers to avoid or move out of vulnerable situations, create or exacerbate vulnerable situations, or help identify consumers in vulnerable situations.

The purpose of this consultation is to get stakeholder views on our proposed work programme. This consultation runs until **14 February 2014**. We will then publish a response summary alongside the updated work programme, as well as a detailed workplan for the early work to be commenced in 2014.

1. Introduction

1.1. The government's smart metering implementation programme aims for every home and smaller business in Great Britain to have smart electricity and gas meters. As a result, energy suppliers will be responsible for replacing over 53 million gas and electricity meters, which will involve visits to 30 million homes and small businesses. Most smart meters will be installed between 2015 and 2020, the start and end dates of the official mass roll-out¹. However, some companies have started to install smart meters already; several million smart meters will likely be in place by the time mass roll-out starts towards the end of 2015.

1.2. Smart metering technology will transform how energy markets operate, providing the platform for a smarter energy market. The government envisages the roll-out of smart meters to bring a wide range of consumer benefits, to play an important role in Britain's transition to a low-carbon economy, and to help meet some of the long-term challenges in ensuring an affordable, secure and sustainable energy supply.

1.3. The benefits which smart metering technology can bring to consumers are significant. The in-home display (IHD) will provide real-time information about energy consumption. Together with accurate bills, this will help consumers to manage their energy use and expenditure and reduce their carbon emissions. Smart metering will also enable suppliers and third parties to offer new and improved products and services.

1.4. The smart metering impact assessment also identifies long-term savings² for consumers, based on cost savings to suppliers being passed on to consumers. Cost savings may occur directly from supplier efficiency gains enabled by smart meters; savings can also result from the improvements to the management of, and investment in, the network. The government owns the cost-benefits case for the smart metering implementation programme and has put arrangements in place to ensure consumer benefits will be evaluated and reported on throughout the roll-out. We have an important role to play in promoting competition as the mechanism to deliver efficiencies and drive down prices.

1.5. As with any technological transformation, smart metering presents risks and issues alongside benefits and opportunities. As the regulator for gas and electricity markets in Great Britain, our principal duty is to protect the interests of present and

¹ Mass roll-out as used in this document refers to the deployment of smart meters to domestic and small non domestic consumers, scheduled to run for five years from the end of 2015 onwards. It does not refer to the roll-out of advanced metering to medium-sized businesses which began in 2009 and is scheduled to be completed in 2016.

² Smart meter roll-out for the domestic and small and medium non-domestic sectors (GB) – Impact Assessment. DECC, 2013.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78666/IA-Feb.pdf

future consumers. We therefore need to ensure that the interests of consumers remain protected both during the transition to a smarter market and in the enduring framework. We also have an important role to play in facilitating the realisation of smart metering benefits, and ensuring that smart meters can empower consumers to effectively participate in the energy market. We will also play a key role in monitoring and, where appropriate, enforcing compliance with the regulatory obligations relating to smart meters.

1.6. We have been actively engaged with the government’s smart metering programme from the start, and we have put in place a set of regulatory arrangements to address the early introduction of smart meters. We have also set up our Smarter Markets Programme to support this process.

Ofgem’s Smarter Markets Programme

1.7. In 2012, Ofgem launched its Smarter Markets Programme. The purpose of the programme was to proactively identify, and see implemented, changes to market arrangements to enable the development of smarter markets. The programme has a vision of delivering better outcomes for all consumers through the creation of smarter markets that are more efficient, dynamic and competitive. Following stakeholder consultation, four key projects were identified: Change of Supplier, Electricity Settlement, Demand-Side Response, and Consumer Empowerment and Protection³.

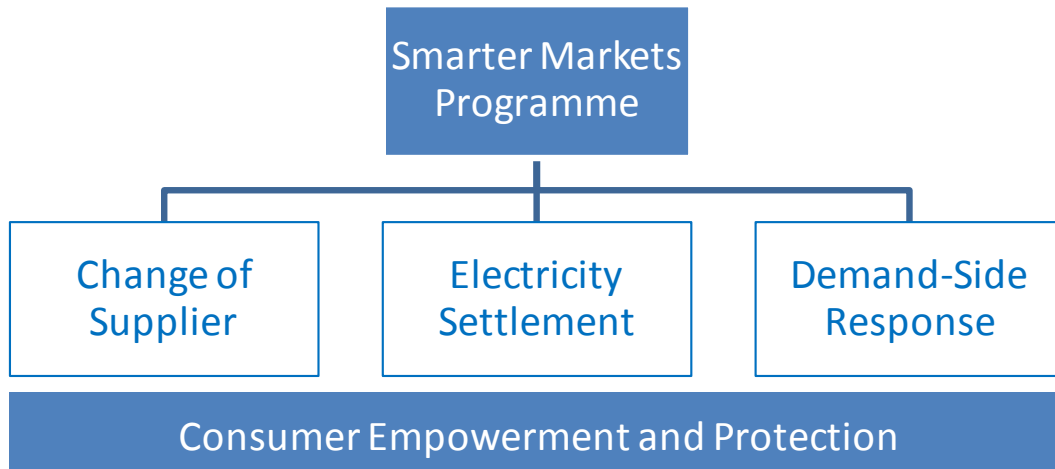


Figure 1: Our Smarter Markets Programme

1.8. This consultation forms part of our ongoing work under the Consumer Empowerment and Protection project. This aims to ensure that regulatory

³ Promoting Smarter Markets: A work programme. Ofgem, 2012. <https://www.ofgem.gov.uk/publications-and-updates/promoting-smarter-energy-markets-work-programme>

arrangements empower and protect consumers to participate effectively in smarter retail energy markets, recognising the opportunities and risks involved. In doing so, the project will actively and directly contribute to the achievement of the Smarter Markets Programme's vision.

A strong foundation of work to date

1.9. The Consumer Empowerment and Protection project will build on a strong foundation of existing regulatory and industry rules already put in place around smart meters, and follows on from preceding work in this area by Ofgem, the Department of Energy & Climate Change (DECC) and industry stakeholders:

- In 2011, Ofgem introduced its 'Spring Package' of domestic consumer protections with a specific focus on smart prepayment and remote disconnection functionalities⁴. For non-domestic consumers, Ofgem also put forward a set of self-regulatory requirements⁵. We have also put arrangements in place to monitor these obligations and requirements.
- In 2012, Ofgem implemented a set of licence conditions to ensure that consumers with advanced domestic meters were not disadvantaged in terms of their ability to switch supplier⁶.
- In 2012, data access and privacy licence conditions were introduced by DECC setting out rules to protect consumers' privacy where smart meter data is accessed⁷.
- In 2012, supply licence conditions were introduced by DECC underpinning a Central Delivery Body, designed to deliver centralised smart metering consumer engagement activities. The Central Delivery Body came into existence in the summer of 2013.
- In 2013, the Smart Metering Installation Code of Practice (SMICOP) was introduced. SMICOP is designed to ensure that consumers have a positive

⁴ Smart metering 'Spring Package': Addressing consumer protection issues. Ofgem, 2011. <https://www.ofgem.gov.uk/publications-and-updates/smart-metering-spring-package-addressing-consumer-protection-issues>

⁵ Smart Metering Consumer Protections 'Spring Package': non domestic – open letter. Ofgem, 2011. <https://www.ofgem.gov.uk/ofgem-publications/57331/nondomsmartmetersspringpackageopenletnov.pdf>

⁶ Supporting effective switching for domestic customers with smart meters: Modification of supply licence standard conditions. Ofgem, 2012. <https://www.ofgem.gov.uk/ofgem-publications/41868/smart-meters-effective-switching.pdf>

⁷ Smart Metering Implementation Programme. Data access and privacy: Government response to consultation. DECC, 2012. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43046/7225-gov-resp-sm-data-access-privacy.pdf

experience of the smart metering installation process⁸. The relevant licence conditions were introduced by DECC, and suppliers developed the code. It was approved by Ofgem.

Purpose of this consultation

1.10. The purpose of this consultation is to identify and prioritise areas we need to work on to ensure consumers are empowered and remain protected in smarter markets. Informed by extensive engagement with stakeholders, we have defined and phased a set of focus areas for a work programme moving forward. This consultation seeks views on this proposed work programme.

Structure of this document

1.11. Chapter 2 sets out the context for our proposed work programme and the principles we adopted in designing it. It also describes how we will apply our consumer vulnerability strategy to our work, and sets out a proposed approach to micro-businesses.

1.12. Chapter 3 provides an overview of the proposed work programme. This includes a high-level description of the three phases, and detailed information for the nine focus areas. As relevant, this includes a view on some opportunities and risks, current arrangements, timing considerations, high-level objectives, and applicability to micro-businesses.

1.13. Chapter 4 sets out the next steps for the project.

⁸ Consultation on the Smart Metering Installation Code of Practice. Ofgem, 2013. <https://www.ofgem.gov.uk/ofgem-publications/57320/consultation-smart-metering-installation-code-practice.pdf>

2. Designing the proposed work programme

Chapter Summary

This chapter sets out the context for our proposed work programme and the principles we adopted in designing it. It also describes how we will apply our consumer vulnerability strategy to our work, and sets out a proposed approach to micro-businesses.

Question 1: Do you agree with our proposed approach to micro-businesses?

Context

Focusing on a smarter market

2.1. The Consumer Empowerment and Protection project focuses on the future smarter market and the transition towards it. It is not focused on the roll-out process itself. For the roll-out process, we have introduced - with industry - the Smart Metering Installation Code of Practice, and we will keep performance against this code under review. We will also monitor compliance with the regulatory obligations set by the government to mandate the roll-out.

Building on the Retail Market Review (RMR)

2.2. Under our RMR programme, we recently published detailed rules that will deliver a simpler, clearer and fairer energy market. The reforms being introduced will tackle widespread consumer confusion over energy tariffs, poor supplier behaviour and lack of transparency which is stifling competition. They will give consumers the choice they want and provide simplicity to compare energy tariffs, making it much easier to access the information they need to find the best deal on the market.

2.3. The RMR reforms are needed to rebuild trust and restore consumer confidence in engaging in the market. This is important in and of itself; it will also create a more positive and effective starting point from which consumers can engage with smart meters, with the products and services which will be enabled by this technology, and with the more complex market that is likely to develop. Without this trust there is a risk that consumer engagement could be undermined, and that there will be significant limits to the benefits which consumers capture from smart metering. Once consumers start experiencing the benefits of smart meters, this in turn should help to improve trust and confidence in the market.

2.4. The RMR reforms provide scope for early innovation enabled by smart metering. For example, they allow for multiple tariff categories which accommodate time-of-use tariffs, and a derogations process has been put in place to enable the development of more complex or innovative tariffs. We consider that this strikes an appropriate balance between ensuring that innovations can emerge over time, and rebuilding consumer trust and confidence through a simpler and clearer market.

2.5. We recognise that some element of the RMR arrangements needs to be addressed for time-of-use tariffs specifically. We also understand that in the longer run more complex tariffs may be required to support a market with more advanced DSR products and services. These considerations are incorporated into the design of the Consumer Empowerment and Protection work programme. As such, the proposed work programme has been designed to support and reinforce the RMR objective of rebuilding consumer trust and confidence in the market, while creating a platform for future developments. We have also committed to a full review of the RMR rules by 2017.

2.6. The Consumer Empowerment and Protection project will also build on the strong foundation of consumer behavioural insight which underpinned the RMR work. The extensive knowledge base we developed will inform our work, and we will continue to expand our insight and understanding. Consumer empowerment is a rapidly evolving field. As such, the smart metering deployment takes place against a wider backdrop of changing consumer attitudes and increasing efforts to empower consumers in general. We will continue to apply broader consumer empowerment principles and incorporate these in our approach to regulating a smarter retail market.

Complementing our wider work

2.7. The Consumer Empowerment and Protection project will consider a wide range of topics and themes. This is natural given the remit and objective of the project, the size and nature of the broader smart metering implementation programme, and the fundamental and far-reaching changes enabled by the introduction of smart meters.

2.8. A direct consequence of this will be strong dependencies with other ongoing Ofgem programmes and projects, both within the Smarter Markets Programme and beyond. The boundaries between the Consumer Empowerment and Protection project and other relevant, ongoing Ofgem work have already been defined. We will ensure that appropriate communications channels and governance structures are in place to accommodate the various dependencies and interactions.

2.9. The wide-ranging nature of the Consumer Empowerment and Protection project also means that it can be informed by wider Ofgem work, such as our broader consumer empowerment work. We will work to ensure that the relevant insights and learnings will be drawn upon across the work programme.

Balancing the new with the traditional

2.10. Smart meters will be deployed over time. This means that at least for the duration of the roll-out there will be some consumers with smart meters and some with traditional meters. For each focus area, we will therefore carefully consider whether to apply any changes to regulatory arrangements to consumers with smart meters only, or those with traditional meters as well. This would likely depend on a combination of three factors:

- **applicability:** arrangements may not apply to traditional meters by virtue of the underlying technology, eg arrangements around the use of low credit alerts. This may lead to applying arrangements to consumers with smart meters only.
- **focus on protection or empowerment:** arrangements may be focused more on protection than empowerment, eg backbilling vs data provision. A stronger protection focus may lead towards applying arrangements to all consumers.
- **proportionality:** the burden of taking a differential approach to these two groups of consumers needs to be considered. This may in part depend on the ratio of consumers with traditional meters vs those with smart meters (ie the timing of introducing any arrangements).

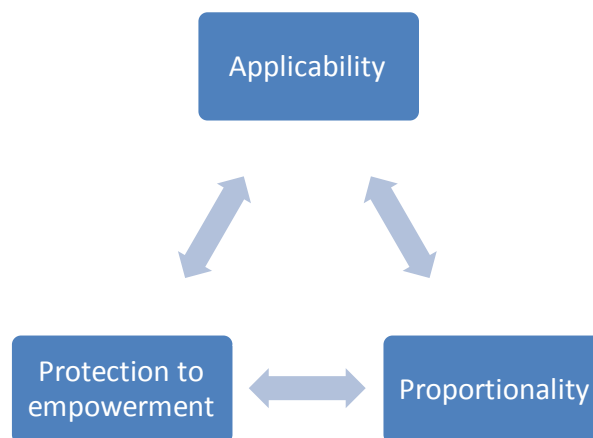


Figure 2: Considerations for applying arrangements to consumers with smart meters and those with traditional meters

2.11. We recognise that there will likely remain, beyond the end of mass roll-out, a number of consumers without smart meters. This is addressed as a specific focus area in Chapter 3 below.

Design criteria

Defining focus areas

2.12. Before defining our proposed areas of work and designing the work programme, we engaged with stakeholders to identify the risks and opportunities for consumers in a smarter market. This engagement includes a well-attended consumer risks and opportunities workshop earlier this year⁹. Combined with insight from secondary research and relevant consumer complaints data, this stakeholder input informed the identification of focus areas for the proposed work programme.

2.13. The list of risk and opportunity areas associated with smart metering is wide-ranging. We included focus areas in the proposed work programme for the Consumer Empowerment and Protection project based on the following set of criteria:

- Ofgem has a role to play in identifying, designing or delivering the solutions
- The current regulatory arrangements *may* not be fit-for-purpose in light of the emerging or anticipated risks and opportunities, for several reasons:
 - shortcomings: existing arrangements may provide insufficient or ineffective consumer protection
 - constraints: existing arrangements may inhibit or limit consumer empowerment
 - conflict: existing arrangements may be incompatible with necessary market developments.
- The content reflects one or more of the following:
 - a key area of consumer benefit realisation for smart metering
 - an area which may significantly affect consumers' ability to manage their bills
 - an area which may significantly affect the wider consumer experience
 - a topic of emerging or anticipated concern or contention.

⁹ Consumer Empowerment and Protection workshop materials. Ofgem, 2012. <https://www.ofgem.gov.uk/publications-and-updates/workshop-consumer-empowerment-and-protection-agenda>

Prioritising focus areas

2.14. It will be neither possible nor necessary to address all proposed areas at the same time, and the proposed work programme has been designed in phases. Once the proposed focus areas were identified, we prioritised and phased these against the following considerations:

- immediacy of consumer risks or opportunities, with a focus on facilitating the early realisation of key smart metering benefits for consumers
- dependencies or interactions with external timelines, primarily those of the government's smart metering implementation programme; this includes an acknowledgement of supplier design and implementation timelines for smart strategies, systems and processes
- dependencies or interactions with other Ofgem work, such as RMR
- dependencies or interactions with market developments.

2.15. We will remain flexible once the work programme has been confirmed following this consultation, especially for focus areas in later phases. We acknowledge, and indeed anticipate, that both the content and the timing may need to be adjusted in light of the uncertainty around future developments. For example, new areas of work may need to be included, or areas may need to be brought forward. Towards the end of each phase of work we will review the remainder of the work programme to ensure its focus remains relevant and appropriate.

2.16. We will also develop an evidence base for future focus areas at appropriate times before the actual work starts, and start or continue to monitor relevant aspects when appropriate. Our insights from this may also influence the reprioritisation of where we focus our work.

Setting key objectives

2.17. We have identified key objectives for the focus areas in phase 1 of the proposed work programme. Recognising the consumer risks and opportunities as currently perceived, these set out an initial level of aspiration for ensuring consumer empowerment and protection within the various focus areas and will help to guide the work going forward. We have not set out objectives against phases 2 and 3 of the proposed work programme, acknowledging that it would be premature to do so before further market developments take place.

2.18. These objectives do not prejudge the mechanisms through which they can be achieved. This is likely to vary from area to area. The most effective and suitable approach will be determined as part of the work on each.

Vulnerable Consumers

2.19. We recently released our Consumer Vulnerability Strategy¹⁰. The aim of the strategy is to understand and identify the causes of vulnerable situations in the energy market and reduce the likelihood and impact of such situations. The strategy recognises that vulnerability is about the situations which consumers are in, rather than about the individual per se; risk factors stem from personal circumstances as well as from the energy market itself. Also, vulnerability can be transitory as people's circumstances change. Our intention through the strategy is not simply to protect consumers in vulnerable situations *from* the market, but ensure they have equal access *to* the market, and to create the right framework to protect and empower them.

2.20. We will incorporate and apply our consumer vulnerability strategy across all focus areas of the Consumer Empowerment and Protection project. We committed to this under Theme 3 of the Consumer Vulnerability Strategy's work programme ("Develop targeted and effective regulatory obligations"). For each focus area we will consider whether smart metering could:

- empower consumers to avoid or move out of vulnerable situations
- create or exacerbate vulnerable situations
- help identify consumers in vulnerable situations.

We will take this into consideration as the regulatory arrangements for each focus area are developed.

Micro-businesses

Definition and approach

2.21. Smart meters will be rolled out to all domestic consumers as well as to small non-domestic consumers as defined by DECC. This comprises non-domestic consumers in Profile Classes 3 and 4 for electricity¹¹, and those with annual consumption below 732MWh/Yr for gas.

2.22. The Consumer Empowerment and Protection project will address regulatory arrangements both for domestic consumers and for micro-businesses as defined by

¹⁰ Consumer Vulnerability Strategy. Ofgem, 2013. <https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf>

¹¹ A load profile represents the pattern of electricity usage of a segment of supply market customers. Profile classes 3 and 4 represent Non-Domestic Unrestricted Customers and Non-Domestic Economy 7 Customers respectively.

Ofgem¹². This is consistent with DECC's approach to smart metering for non-domestics which focuses on a range of issues in the context of micro-businesses specifically. As DECC states: *"In terms of the rules governing the roll-out, the key differences in the treatment of micro-businesses and other non-domestic customers lie in the areas of customer protection, engagement and data access and privacy."*¹³

2.23. This approach is also in line with Ofgem's growing focus on micro-businesses in general, most recently through our RMR reforms which also extended rules to bring more businesses under our micro business protections¹⁴. This reflects an awareness that micro-businesses, though a varied consumer segment, are in many ways distinct from larger businesses. They are more limited in their ability to effectively engage and protect themselves in their interactions with the market. This merits a focus on the necessary protections and arrangements for micro-businesses.

2.24. Previous work on smart metering already sets this direction. We addressed non-domestic consumers in the Spring Package (2011). The Data Privacy and Access arrangements (2012) put in place by DECC address micro-businesses specifically, as does the Smart Metering Installation Code of Practice (2013). As such, the Consumer Empowerment and Protection project will continue this dedicated focus on micro-businesses.

2.25. An appropriate balance will need to be struck between limiting the regulatory constraints on the commercial relationship between suppliers or their representatives and micro-businesses, and ensuring micro-businesses are sufficiently empowered and protected. Not all future regulatory arrangements for domestic consumers will be applicable or relevant for micro-businesses; current arrangements similarly differentiate between domestic and micro-business consumers as appropriate.

2.26. We will address micro-businesses within each area of the proposed work programme, rather than designate micro-businesses as a separate focus area. Across the focus areas identified, we consider most apply to micro-businesses.

2.27. In Chapter 3 below, we reference micro-businesses specifically in those focus areas of our proposed work programme which we consider to be of relevance. As

¹² Micro-businesses are defined as those businesses who:

- consume ≤ 100,000 kWh electricity per year, or
- consume ≤ 293,000 kWh gas per year, or
- employ fewer than 10 employees (or their FTE equivalent) and their turnover or balance sheet is no greater than €2 million.

¹³ Smart Metering Implementation Programme Smart Metering for Non-Domestic Customers. DECC, 2013.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/87894/ND171_an_SMIP.pdf

¹⁴ The Retail Market Review – Final non-domestic proposals. Ofgem, 2013.

<https://www.ofgem.gov.uk/ofgem-publications/39355/retail-market-review-final-non-domestic-proposals22-marchfinal.pdf>

noted in the Chapter 5, our next steps will include designing our workplan approach to micro-business consumers within each individual focus area.

Scope considerations

2.28. Two factors need to be considered when bringing micro-businesses into the scope of the Consumer Empowerment and Protection work programme:

- a small discrepancy exists between DECC's definition of small non-domestics included in its smart metering roll-out, and micro-businesses as defined by Ofgem. Based on consumption levels *only*, we estimate that for electricity approximately 98%¹⁵ of small non-domestics are defined as micro-businesses by Ofgem; there is complete overlap for gas consumers.
- not all small non-domestics as defined by DECC will have smart meters. For a period of time, a subset of small non-domestics will have advanced rather than smart meters¹⁶. Advanced meters, as a minimum, can store half-hourly electricity and hourly gas data to which the customer can have timely access and to which the supplier can have remote access. However, they may be more limited in broader functionality than smart meters.

2.29. Therefore, when micro-businesses are considered within the Consumer Empowerment and Protection project it needs to be acknowledged that:

- a small number of non-domestic consumers will have smart meters but will not be addressed under the micro-business arrangements
- some of the arrangements may not be relevant for those micro-businesses with advanced meters in light of the more limited functionality they offer

2.30. These considerations and implications do not preclude us from including micro-businesses within the Consumer Empowerment and Protection project, but it will be important to take these issues into account in the work programme moving forward.

¹⁵ Based on 2011 Elexon data; these are Profile 3 & 4 consumers who consume $\leq 100,000$ kWh electricity per year (Ofgem's definition for micro-business based on consumption only)

¹⁶ DECC estimates that 33% and 40% of small non-domestic electricity and gas consumers respectively will have advanced meters. The remaining consumers will be on advanced meters, currently being rolled out until 2016, and allowed to remain in place until the end of their lifespan when they need to be replaced by smart meters. For details see:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253090/smip_cons_doc_gov_response_open_letter.pdf

Small non-domestic consumers with advanced meters will tend to be those at the larger end of the consumption scale, or smaller sites which form part of multi-site businesses. By the end of September 2013, 27% (electricity) and 2% (gas) of meters installed in smaller non-domestic sites were reported as advanced meters; this reflects data from the larger energy suppliers only. See <https://www.gov.uk/government/collections/smart-meters-statistics>



2.31. We also recognise that there are circumstances where a micro-business supply may be shared by domestic consumers. This raises questions around both the realisation of benefits and the need for protections which will need to be addressed.

3. Our proposed work programme

Chapter Summary

This chapter provides an overview of the work programme. This includes a high-level description of the three phases, and detailed information for the nine focus areas. As relevant, this includes a view on some opportunities and risks, current arrangements, timing considerations, high-level objectives, and applicability to micro-businesses.

Question 2: Do you agree with the focus areas we identified?

Question 3: Do you agree with the objectives we set out?

Question 4: Do you agree with the proposed phasing of work, or do you think some areas should be brought forward or pushed back?

Question 5: Do you think we have missed any areas to focus on? When do you think we should address these?

Overview

3.1. The figure below summarises the proposed focus areas as well as their grouping and phasing for the work programme.

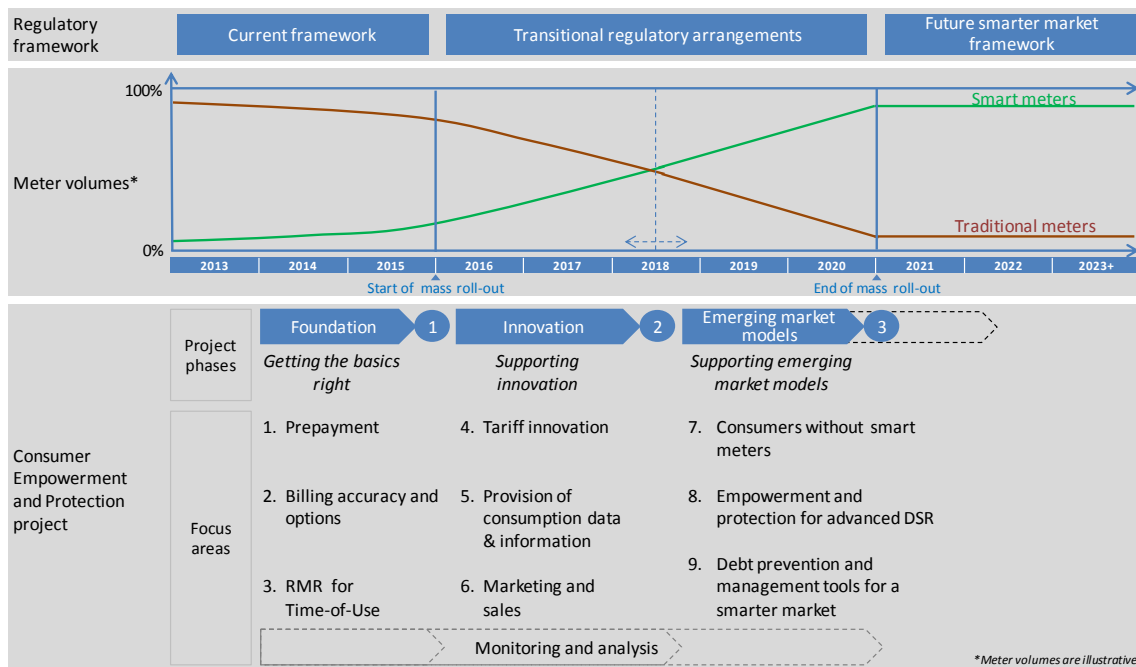


Figure 3: Proposed work programme for the Consumer Empowerment and Protection project

Phase 1 – Foundation

3.2. Phase 1 runs from early 2014 until the start of mass smart meter roll-out, scheduled for the end of 2015.

3.3. This phase addresses core areas of supplier-consumer interaction which will see substantive change through the advent of smart metering. We will look to support and facilitate the realisation of basic, yet fundamental, smart metering benefits for consumers from the start of mass roll-out. Building on from the 2011 Spring Package, we will also ensure that protections remain adequate and fit-for-purpose.

3.4. We also recognise that, in the run-up to the mass roll-out, suppliers will be designing and implementing their smart strategies, systems and processes. Our aim is to provide early clarity on our views in these areas to guide supplier efforts as appropriate.

3.5. By focusing on the basics first, phase 1 will also support and reinforce Ofgem's broader RMR objectives of rebuilding consumer trust and confidence in the market. This in turn will help to build a stronger foundation for consumer engagement with smart metering. Moreover, we believe that not setting out our views and guidance on these focus areas at an early stage could undermine broader consumer confidence in the smart metering programme specifically and the overall market in general.

Phase 2 – Innovation

3.6. Phase 2 runs across the first half of the mass roll-out to an approximate mid-point by when the majority of consumers are likely to have smart meters.

3.7. This phase addresses areas where we expect significant innovations to emerge which can help to deliver the consumer benefits of smart metering. We will look to appropriately support these innovations.

3.8. Work in these areas can only be meaningfully considered after first allowing the market to develop further. We will then be able to assess if the existing regulatory arrangements appropriately support the market developments, if additional measures are required to better empower consumers to make use of the new opportunities, or if existing protections are proving inadequate in the context of the emerging innovations.

3.9. There are also dependencies with broader ongoing and planned government initiatives, such as the midata programme¹⁷ and the planned review of the data privacy and access obligations¹⁸. The outcome will impact our work in this phase.

¹⁷ midata is a voluntary programme the Government is undertaking with industry which over

Phase 3 – Emerging market models

3.10. Phase 3 runs across the latter half of the mass roll-out until its completion, scheduled for the end of 2020.

3.11. Towards the end of the smart meter roll-out, we will look to ensure that consumers are empowered and protected within the context of enduring and fundamental market model changes. These include the establishment of long-term parallel traditional and smart meter infrastructures, or a market which may see fundamentally different types of interactions and relationships between consumers and a range of market participants.

3.12. Work in these areas can only be meaningfully considered after first allowing the market to develop further. Suppliers are also likely to wait until a critical mass of smart meters has been installed before they make more fundamental changes to their operational processes in the focus areas identified.

3.13. There also exist strong interactions and dependencies with wider reforms to market arrangements which will impact our work in this phase. This includes work on DSR and settlement reform, both part of our Smarter Markets Programme. As these reforms come through, new issues are likely to arise which will need to be addressed.

Phase 1 – Foundation

Prepayment

3.14. Many stakeholders see smart meters as a transformative opportunity to greatly improve the service provided to prepayment consumers, and remove what some consider to be a 'stigma' around prepayment. Potential consumer benefits include greater convenience and choice in payment top-up methods, greater flexibility in friendly and emergency credit arrangements, a significantly reduced risk of misallocated or unallocated payments, and the ability to switch remotely between credit and prepayment modes. Smart meters will also allow for greater insight into self-disconnections, the extent and frequency of which is currently poorly understood. We will look to ensure that the regulatory arrangements support the delivery of smart metering benefits to prepayment consumers. We also expect

time will give consumers increasing access to their personal data in a portable, electronic format. See: The midata vision of consumer empowerment. Government, 2011.

<https://www.gov.uk/government/news/the-midata-vision-of-consumer-empowerment>

¹⁸ DECC have indicated that the overall data privacy and access framework will be reviewed within three years of it coming into force.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/43046/7225-gov-resp-sm-data-access-privacy.pdf

industry to make smart prepayment available early on, and are committed to facilitating this.

3.15. The advent of smart prepayment also presents several risks which need to be considered and managed. These include significant practical risks, such as the possibility of erroneous transfers to prepayment mode, a failure in the communications infrastructure which could prevent or delay top-ups, and challenges around the real-time validation of consumers against their supplier or the transfer of credit at the point of switching.

3.16. There are also broader strategic risks. Prepayment in effect moves the burden of responsibility for disconnection from the supplier to the consumer. This is already the case with existing prepayment meters, but consumers on prepayment traditionally constitute a minority within the overall consumer base, if significant and growing (approximately 14 and 16% for gas and electricity respectively¹⁹). Today's prepayment consumers are also often seen as a distinct group with specific needs and attributes. With the advent of smart meters the number of consumers on prepayment is likely to grow, and the current distinctions between credit and prepayment consumers is likely to be diluted as the nature of prepayment fundamentally changes. As such, a smarter market could, from one perspective, become synonymous with a market in which a significant portion of the consumer base runs the risk of self-disconnection. This is fundamental, especially in the context of continued price rises, and puts prepayment at the heart of a delicate balance between consumer risk and opportunities. This needs to be carefully considered and managed.

3.17. The nature of prepayment will fundamentally change in terms of the payments methods associated with it. Prepayment will cease to be a distinct payment method almost entirely reliant on the prepayment meter infrastructure provision and payment through retail outlets. Prepayment consumers may start to use alternative payment methods such as credit cards and direct debit arrangements such as automated top-ups through a consumer's bank account; such arrangements are traditionally associated with credit consumers. Some credit consumers, on the other hand, may start paying for part of their consumption in advance.

3.18. Current licence conditions and arrangements already provide essential protections to smart prepayment consumers, and smart prepayment considerations formed a vital part of the 2011 Spring Package. The package included measures to formalise our guidance on 'safe and reasonably practicable' requirements for the installation of prepayment meters, and to extend this to smart meters. Energy UK's Safety Net²⁰ has also been updated to accommodate smart prepayment. The Social Obligations reporting requirements for suppliers already include several smart prepayment items.

¹⁹ Monitoring social obligations: Q4 2012 data report. Ofgem, 2013.

<https://www.ofgem.gov.uk/ofgem-publications/84394/monitoringsocialobligations-q42012datareport.pdf>

²⁰ The Safety Net. Energy UK, 2013. <http://www.energy-uk.org.uk/publication/finish/30/308.html>

3.19. However, some of the existing arrangements have not yet been fully tested. We will aim to start understand their effectiveness and applicability through our work under the Consumer Empowerment and Protection work, to ensure that they remain fit-for-purpose. Furthermore, the existing rules may not fully address some of the subtler risks, and no obligations or voluntary arrangements promote the active and considered use of newly available functionalities and information (such as self-disconnection data). Some of the existing regulations may also prevent full and beneficial use of smart functionalities. The impact of moving away from prepayment as a distinct payment method will also need to be considered.

3.20. To guide our work, we have identified the following objectives for the 'Prepayment' focus area:

- prepayment as a clear, convenient and attractive proposition for consumers
- safe, easy and proportionate switching between prepayment and credit
- consumers protected from top-up failures
- robust understanding of self-disconnections and considered use of this information to support consumers
- available smart prepayment functionalities actively used to support consumer budget management and debt prevention (eg low credit alerts)
- optimal emergency and friendly credit arrangements
- prepayment consumers switching easily between suppliers with accurate and timely credit transfers or refunds

3.21. We are aware that during the transition period towards ubiquitous smart meters the existing prepayment infrastructure will support a decreasing number of traditional prepayment consumers. Given the current licence conditions stipulating that charging differentials for payment methods need to be cost reflective, and that traditional prepayment constitutes a payment method, this could lead to a correlated increase in costs to traditional prepayment consumers. We will keep this under close review and work with suppliers to understand the charging patterns emerging and the impacts this has on traditional prepayment consumers.

3.22. Beyond the start of mass roll-out, we will keep under review the extent to which smart prepayment is being made available. As we believe prepayment consumers can benefit greatly from smart meters, we expect to see the timely availability of this functionality. We will consider our options if we have concerns that there is a delay to the detriment of consumers.

3.23. For micro-businesses, we acknowledge that use of prepayment meters is currently not as prevalent as it is for domestic consumers. However, some micro-

businesses do use them, and we recognise that their use may increase in light of the benefits offered by smart metering. We therefore think this it is appropriate and relevant to address smart prepayment for domestic and micro-business consumers alike.

Billing accuracy and options

3.24. All consumers can gain from the fundamental benefits of improved billing accuracy without the need for estimations, combined with a significant reduction in the need for backbilling. These are benefits which can be realised immediately and are not reliant on either market innovations or changes in consumer behaviour. Ofgem will look to ensure that the regulatory arrangements support the delivery of these benefits; we are also committed to facilitating their early delivery.

3.25. Billing accuracy is repeatedly and consistently highlighted as a key benefit by multiple stakeholders. These include the Energy and Climate Change Committee, which in its recent report on smart meters said: "*Ofgem must be prepared to strengthen the requirements on suppliers to provide accurate bills if there is evidence that consumers are not receiving accurate bills and/or that they are being back-billed months after smart meters have been installed.*"²¹ In our response we confirmed our view that accurate bills are a key benefit. We also highlighted that the Smarter Markets Programme will consider existing arrangements for billing accuracy, bill estimations and back-billing as part of its work programme, including whether it is appropriate to strengthen obligations on suppliers.²²

3.26. Current billing arrangements are largely based on voluntary initiatives such as Energy UK's Codes of Practice for accurate bills²³ and backbilling²⁴. Licence conditions do stipulate that consumer bills should reflect meter reads that are considered accurate. The availability of remote reads from smart meters in conjunction with this obligation should improve billing accuracy. However, for consumers to gain the true benefits of improved accuracy this needs to be combined with other features such as optimal billing frequency, optimal regularity and frequency of adjustments to direct debit payments, or the ability to pay by variable direct debit arrangements. None of these are considered in either the limited licence obligations or the more extensive voluntary billing arrangements.

²¹ Energy and Climate Change - Fourth Report: Smart meter roll-out. ECCC, 2013.

<http://www.publications.parliament.uk/pa/cm201314/cmselect/cmenergy/161/16102.htm>

²² Smart meter roll-out: Government and Ofgem Responses to the Committee's Fourth Report of Session 2013-14. ECCC, 2013.

<http://www.publications.parliament.uk/pa/cm201314/cmselect/cmenergy/719/71905.htm>

²³ Code of practice for accurate bills. Energy UK. <http://www.energy-uk.org.uk/publication/finish/43-code-of-practice-for-accurate-bills/411-the-code-of-practice-for-accurate-bills.html>

²⁴ Code of Practice for Accurate Bills - Back Billing for Domestic Customers. Energy UK.

<http://www.energy-uk.org.uk/publication/finish/43-code-of-practice-for-accurate-bills/412-the-code-of-practice-for-accurate-bills-back-billing-for-domestic-customers.html>

3.27. We are also aware that some consumer complaints have started to emerge around billing accuracy and backbilling in a smart metering context. We believe this has affected only a small percentage of those consumers already on smart meters and that some of these complaints are the result of 'teething' issues with smart metering systems. We will look to gain a better understanding through our work under the Consumer Empowerment and Protection work.

3.28. The European Energy Efficiency Directive²⁵ also includes articles on metering and billing information. In our work we will take account of ongoing developments around transposing this directive.

3.29. We also note the interactions and dependencies between the Consumer Empowerment and Protection project and the Change of Supplier project, which is also part of the wider Smarter Markets Programme. The work to date²⁶ under the Change of Supplier project already considered that new billing standards on the timing of the opening and closing bills and repayment of credit balances should be addressed through industry self governance. This would build on the Energy UK Code of Practice for accurate bills. Where this fails then we could consider formal regulation. This work will be taken forward under the Consumer Empowerment & Protection project, and we will liaise closely with the Change of Supplier project on the relevant dependencies.

3.30. To guide our work, we have identified the following objectives for the 'Billing accuracy and options' focus area:

- accurate bills supported by convenient and effective billing frequency and payment method arrangements
- no reliance on estimated meter readings
- optimal direct debit calculations based on accurate consumption data
- no back-bills where the consumer is not at fault
- timely and accurate opening bills, final bills and rebates

3.31. For micro-businesses, the benefits from smart meters around billing accuracy are significant. We therefore think this it is relevant and appropriate to address this focus area for domestic and micro-business consumers alike. We also recognise that industry standards and licence conditions exist for micro-businesses, and that the nature of these arrangements differs from those for domestic consumers.

²⁵ European Commission – Energy Efficiency Directive.

http://ec.europa.eu/energy/efficiency/eed/eed_en.htm

²⁶ Summary of findings from the Change of Supplier Expert Group. Ofgem, 2013.

<https://www.ofgem.gov.uk/ofgem-publications/84903/cosegsummary.pdf>

RMR and time-of-use tariffs

3.32. As part of our RMR reforms aimed at providing consumers with clearer information, we introduced a Tariff Comparison Rate (TCR). The TCR is intended to function in a manner similar to the Annual Percentage Rate (APR)²⁷ in finance. It will allow consumers to perform an initial, at a glance comparison, of the relative price of tariffs.

3.33. The calculation of the TCR assumes medium consumption levels, and will be performed by suppliers for each permutation of each of their tariffs. The TCR will be displayed on a range of regular consumer communications, including the bill and the Annual Statement, and may also be included in supplier marketing materials. We will also be working with third party intermediaries to ensure the TCR is displayed on a widespread basis.

3.34. Following several consultations with stakeholders, it is our view that the formulation of a methodology for calculating time-of-use TCRs requires significant and complex work, due to the need to develop assumptions about the intra-day consumption splits for time-of-use tariffs. These splits, if applied incorrectly, could have the potential to be misleading to consumers. Thus, the methodology introduced in our RMR decision letter in August is for standard meter tariffs only.

3.35. However, we consider the TCR has significant potential as a comparison tool for consumers, and do not wish to exclude a significant proportion from benefitting from this metric. With this in mind, we signalled our intention to do further work with industry and other stakeholders to develop a time-of-use TCR, which could then be inserted into the standard licence conditions. We will be establishing a working group with stakeholders next year in order to develop this methodology, and would include this as part of our work under the Consumer Empowerment and Protection project.

3.36. While the main challenge identified to date has been around the TCR specifically, more widely we want to make sure that all aspects of the RMR package will work effectively for time-of-use tariffs and that no unnecessary barriers are created. We will monitor market developments in this regard and the interaction with our package of RMR reforms. This will allow us to understand if any issues or concerns emerge and if tailoring is needed.

²⁷ The Annual Percentage Rate describes the interest rate for a whole year

3.37. To guide our work, we have identified the following objective for the 'RMR and time-of-use tariffs' focus area:

- RMR reforms for simpler tariffs and clearer information applied equally to time-of-use tariffs
- no unnecessary barriers to time-of-use tariffs due to RMR reforms

3.38. The relevant RMR reforms apply to domestic consumers only. We would therefore not address micro-business within this focus area.

Phase 2 – Innovation

Tariff innovation

3.39. Smart meters allow for the introduction of more advanced and innovative tariffs. These will be fundamental to encouraging changes in consumption behaviours as consumers reduce or shift demand in response to price signals. Smart tariffs can enable cost savings for those consumers able to favourably alter their consumption patterns, or whose consumption behaviour already fits with the structure of new tariffs. Smart tariffs are also an important tool to facilitate DSR, which in turn is a key element of the government's strategy to mitigate security of supply risks and help with sustainability objectives.

3.40. The range and sophistication of possible smart tariffs is extensive; tariff types commonly used internationally include time-of-use, fixed or variable critical peak pricing, and peak-time rebates. We are committed to supporting the considered introduction, over time, of appropriate smart tariffs. We will do so within the critical context of creating a simpler and clearer market through the RMR reforms, and recognising the need to understand the associated impacts on consumers.

3.41. The RMR arrangements allow for considerable tariff innovations, especially through time-of-use tariffs, which are accommodated within multiple tariff categories. Some suppliers have already started to introduce time-of-use tariffs. Limited pilots are also experimenting with more advanced tariffs, and a derogations process has been set up to accommodate this. Subject to further refinements to the information provision rules as noted above, current arrangements are therefore considered to strike an appropriate balance between enabling tariff innovation in the near term and supporting the RMR objectives.

3.42. We recognise that, over time and once the RMR reforms have taken hold, greater flexibility and scope for more complex tariffs may be needed. Specific

obligations may prove incompatible with the general trend of tariff development. This will be taken into account in the full of RMR rules, due to take place by 2017²⁸.

3.43. Similarly, existing regulations may prove ineffective or inadequate in protecting consumers, or specific consumer segments, from detrimental impacts caused by a switch to smart tariffs. This was also noted in several responses to our DSR consultation²⁹ earlier this year, and respondents shared the view that consumer protection will in fact be an important facilitator for the uptake of time-of-use tariffs by domestic customers. We may in time need to consider arrangements which allow consumers to gain the confidence that they can manage their consumption effectively so as to avoid unintended harm from moving to more complex tariffs.

3.44. In the coming years we will gain a better understanding of the types of new tariffs being introduced and how these are launched. We will also know more about consumer attitudes and responses to new tariffs, and the effectiveness and suitability of existing consumer protections. Our work in this area will also be informed by our distributional analysis work which is currently underway, the ongoing research efforts by the government, and the valuable lessons and insights starting to emerge from the various Low Carbon Network Fund pilots³⁰.

3.45. We are alive to the interactions between the Consumer Empowerment and protection project and the Settlement project, which is also part of the wider Smarter Markets Programme. Reforms to settlement arrangements are likely to influence the tariffs on offer to consumers, and we will consider the associated impacts in line with the developments driven by the Settlement project.

3.46. For micro-businesses, many of current arrangements around tariffs do not apply; these have been designed primarily for domestic consumers. However, we recognise that as tariffs become more complex and advanced we may need to consider the associated impact on micro-businesses. We therefore think this it is relevant and appropriate to address this focus area for micro-business consumers as well.

²⁸ The Retail Market Review – Implementation of Simpler Tariff Choices and Clearer Information. Ofgem, 2013.

https://www.ofgem.gov.uk/sites/default/files/docs/decisions/the_retail_market_review_-_implementation_of_simpler_tariff_choices_and_clearer_information.pdf

²⁹ Creating the right environment for demand-side response. Ofgem, 2013.

<https://www.ofgem.gov.uk/publications-and-updates/creating-right-environment-demand-side-response>. For an overview of responses, see:

<https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/smarter-markets-programme/demand-side-response>

³⁰ Low Carbon Networks Fund: publications and updates. Ofgem.

<https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund>

Provision of consumption data and information

3.47. The ability to collect more granular consumption data is one of the primary reasons for rolling out smart meter, offering great opportunities for consumer empowerment. The availability of and access to this data, directly or through third parties, should allow consumers to understand and manage their energy use better. It is likely to open up the market to a range of new entrants offering innovative data-enabled products and services, and improve, strengthen and invigorate the offerings from suppliers and third party intermediaries already operating in the market. Some traditional market participants may reassess their existing business models, while some new entrants will adopt entirely new approaches to bring their services to consumers.

3.48. This data becoming available will take place against a broader backdrop of rapidly evolving developments in consumer empowerment and personal data tools and services, which is already driving changes in overall consumer attitudes and expectations. The application of these consumer empowering products and services to the energy market, enabled by smart meters, has the potential to transform the market and the consumer experience within it.

3.49. As with any personal consumer data, concerns exist around data security and privacy. The availability of data also does not inevitably lead to it being provided to or being used effectively by consumers; they need to be aware that this data is available, need to be able to access it or provide access to it, and need to be able to act on it either directly or with the support of suppliers or third parties. This applies to all consumers, not only those already used to working with data in digital format. The appropriate balance also needs to be struck between ensuring consumer data is appropriately protected and allowing for the emergence of new and beneficial data-enabled products and services; this point was also made by multiple stakeholders in the responses to our DSR consultation. In addition, many of the new and innovative consumer empowerment and personal data products and services are at the stage of concept or early introduction into the market, leaving their true value to consumers as yet unproven.

3.50. Current arrangements have a strong focus on data privacy, to ensure consumers are adequately protected and to avoid consumer confidence in the smart metering programme being undermined by privacy concerns. Consumer consent is required for suppliers to access and use consumption data which does not serve basic supplier functions such as billing. Active consent (opt-in) is required to access data that is more granular than daily and to use any data for marketing purposes.

3.51. Consumer access to their data will, at a minimum, be available through the In-Home Display, by connecting additional devices to the Home Area Network, and by requesting the data from suppliers. We expect suppliers to provide information to consumers about their consumption that is commensurate with the data suppliers are accessing from a consumer's smart meter. A recent government consultation, as part of the implementation of the EU Energy Efficiency Directive requirements, proposed that suppliers *"provide daily, weekly, monthly and annual consumption data to consumers for a period of at least 24 months or the length of the supply contract whichever is the shorter; provide access to such data over the internet or*

meter interface to consumers with meters operating in the smart mode or (where there is a communication link); inform consumers that this consumption data will be available to them on request; and ensure that the data will be provided free of charge³¹. Third parties will be able to access consumption data directly from consumers, or through the Data and Communications Company subject to consumer permission being obtained and the third party subscribing to the Smart Energy Code³².

3.52. Within the context of the current and proposed arrangements, the market will need time to develop. In the next few years we will start to understand how consumption data and information is provided to or accessed by consumers in practice. This will include getting a view on the frequency with which data is accessed, to which level of granularity, in which formats and through which channels. We will keep under review the extent to which this data is made available to, and used by, all consumers. We are mindful that it may be easy to further 'empower those already empowered', but that this comes with a risk of widening the gulf with those less engaged. In reference to our new consumer vulnerability strategy, we will seek to understand if the data empowers all consumers or if perhaps new situations of vulnerability are created by virtue of specific consumer segments not being able to access or use smart metering data.

3.53. We will also gain insights into the extent to which this allows consumers to better manage their consumption behaviour, drives more energy efficient behaviour, facilitates the development of new products and services, and incentivises consumers to engage more effectively with the market. We will get a view in time of which types and methods of providing data and information best facilitate these outcomes, and the need to consider arrangements which ensure their provision to all consumers.

3.54. As third party intermediaries are likely to play a greater role in the market, and may provide new types of products and services, we will stay close to the developments in this area. Ofgem's Third Party Intermediaries programme is specifically focused on this part of the market, and we have recently set out the progress and next steps for this programme³³. We will maintain close collaboration between the Consumer Empowerment project and the Third Party Intermediaries Programme.

3.55. There are key interactions and dependencies with other ongoing initiatives which will also inform our work in this area. DECC is scheduled to review the data privacy and access rules in 2016; the RMR review will take place by 2017, including

³¹ Smart Metering Implementation Programme - roll-out of smart meters: government response and consultation. DECC, 2013
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253091/smip_cons_doc_gov_response_bopen_letter.pdf

³² Smart meters information for industry and other stakeholders. DECC, 2013.

<https://www.gov.uk/smart-meters-information-for-industry-and-other-stakeholders>

³³ Open letter on the Third Party Intermediaries Programme. Ofgem, 2013.

<https://www.ofgem.gov.uk/publications-and-updates/open-letter-third-party-intermediaries-tpi-programme>

the clarity of information obligations put in place; and the midata programme will have evolved from its current framework and scope³⁴.

3.56. As noted above, the general area of consumer empowerment and personal data tools and services is rapidly evolving. Our thinking in the coming years will also be shaped the developments in this broader landscape.

3.57. For micro-businesses, we note that the arrangements around data provision differ substantially from those for domestic consumers; this includes eg the fact that micro-businesses need not be offered an IHD. As the benefits of effective access to and use of consumption data can apply to both domestic and micro-business consumers, we think it is relevant and appropriate to address this focus area for both groups.

Marketing and sales

3.58. Smart meters will allow for innovative products and services to be developed, marketed and sold to consumers.

3.59. Current licence conditions address marketing and sales practices by suppliers and their representatives, and specifically cover pre-contract, contracting and post-contract obligations; they also cover approaches to providing consumers with consumption estimations.

3.60. The application of these obligations will be impacted by the types of products and services enabled by smart meters; this is relevant particularly to smart tariffs, including in the near term before the development of more advanced products and services. Existing arrangements may prove inadequate to protect as yet unforeseen marketing and sales practices. Similarly, the existing arrangements may prove to be incompatible with or overly restrictive towards the development of new products.

3.61. It is important to keep marketing and sales practices in focus to ensure existing arrangements remain fit-for-purpose; they are particularly relevant in light of past behaviour by some suppliers and their representatives.

3.62. The market needs to develop further; over time we will start to understand how new products and services are marketed and sold, and if this gives rise to any consumer concerns.

³⁴ As noted by ED Davey in the 2013 Annual Energy Statement: *"The Government will also be taking forward work to look at requiring energy companies to provide key data, including consumption data, securely to third parties as part of the 'midata' initiative. The energy industry has already taken the lead by providing customers with this data, but allowing it to be passed to third parties such as switching sites will ensure that consumers can get more accurate quotes for their energy bills without providing lots of information."*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254250/FINAL_PDF_of_AES_2013_-_accessible_version.pdf

3.63. The provision of smart metering data to third parties who are signatories to the Smart Energy Code will also mean that new players, not covered by licence obligations, may enter the market. Our current work on Third Party Intermediaries, including the Confidence Code and the development of a Code of Practice in the non-domestic sector, is focused on the sale of energy contracts. There may be a case in the future to extend similar arrangements to TPIs offering other smart services.

3.64. For micro-businesses, we note that at present the main arrangements around marketing and sales practices apply to domestic consumers only, although the RMR reforms introduce Standards of Conduct specific to non-domestic consumers. We have also recently been empowered to enforce the Business Protection from Misleading Marketing Regulations 2008. However, we recognise that the micro-business segment is acutely affected by marketing and sales practices by suppliers, brokers or other intermediaries, and therefore we think it is relevant and appropriate to address this focus area for domestic and micro-business alike.

Phase 3 – Emerging market models

Consumers without a smart meter

3.65. There will likely remain, beyond the end of mass roll-out, a number of consumers without smart meters. This will include consumers prevented from getting smart meters due to logistical or technical constraints, as well as consumers who choose not to accept smart meters. The long-term regulatory arrangements will need to be considered for these consumers. This applies to arrangements for both service provision and charging structures. In doing so, we will also need to consider if differential treatment can or should apply with regard to consumers who cannot have smart meters as opposed to those who choose not to have them. With regards to future charging structures, we also committed to keeping this under review in our response to the Energy and Climate Change Committee³⁵.

3.66. The staged roll-out of smart meters means there will be consumers who won't receive a smart meter until the end of the roll-out, and our approach to differential treatment between consumers on smart vs traditional meters during roll-out has been covered in Chapter 2 above. Our current view is that it would not be appropriate to further differentiate, during the roll-out period, between consumers who can't or won't have a smart meter in the longer term and those who simply haven't had their meter replaced yet. The longer term arrangements for consumers who can't or won't have smart meters should therefore only be considered towards the end of mass roll-out onwards. We will need to get a better understanding, over time, of the size and nature of the consumer group without smart meters. Similarly, we will need to understand supplier intentions and approaches to these consumers.

³⁵ Smart meter roll-out: Government and Ofgem Responses to the Committee's Fourth Report of Session 2013-14. ECCC, 2013.
<http://www.publications.parliament.uk/pa/cm201314/cmselect/cmenergy/719/71905.htm>

3.67. For micro-businesses, we note that some of the potential issues around access to smart meters apply as well. We therefore think it is relevant and appropriate to address this focus area for domestic and micro-business alike.

Consumer empowerment and protection for advanced DSR

3.68. Over time, smart meters will be a key enabler for complex and advanced forms of DSR to emerge in the market. Beyond the introduction of more complex and dynamic tariff structures, this may entail fundamental changes to the basic contractual arrangements consumers currently have with their suppliers; consumers may also develop direct relationships with new market participants or those traditionally removed from them.

3.69. Our proposed work on tariff innovation (see above) will address consumer empowerment and protection considerations for early forms of DSR enabled by smart metering. Several of the possible developments in terms of more advanced DSR response will need to be facilitated by relevant changes to current market arrangements; this falls within the scope of our Smarter Markets DSR project³⁶. The focus area of 'Consumer empowerment and protection for advanced DSR' would look at the consumer impacts of any changes considered by the DSR project.

3.70. The DSR market for domestic and micro-business consumers needs to develop further, and over time we will start to gain a deeper understanding of the types of relationships different market participants are looking to develop with consumers. There also exists a likely dependency on a certain volume of meters having been introduced before some advanced products will be made available. As noted above, there also exists a dependency with the timelines and developments of the DSR and settlement reform projects. We therefore consider this focus area should be taken forward towards the latter half of the mass roll-out. However, we would be flexible to accommodate any timeline changes as necessary in light of future market developments.

3.71. For micro-businesses, advanced DSR products and services will likely be targeted at this consumer group. We therefore think it is relevant and appropriate to address this focus area for domestic and micro-business alike.

³⁶ Smarter Markets Programme – DSR project: publications and updates. Ofgem.
<https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/smarter-markets-programme/demand-side-response>

Debt prevention and management tools for a smarter market

3.72. The advent of smart metering functionalities will bring a substantial change to the portfolio of debt prevention and management tools available to suppliers and consumers. Smart metering *technology* could impact debt prevention and management tools in four ways:

- Those which remain **essentially unaffected**, eg debt objections
- Those which will be **significantly improved**, eg improved accuracy of bills
- Those which will be **fundamentally altered**, eg the ability to disconnect remotely
- Those which will be **entirely new**, eg load limiting³⁷

3.73. Some changes will provide equal benefit to consumers and suppliers; others will provide greater benefit to suppliers. At face value, in light of eg the new and remote functionalities, it can be argued that the balance of power will shift in favour of the suppliers across the portfolio of tools. This poses the fundamental and overarching question of what constitutes an appropriate portfolio of debt prevention and management tools in a future smarter market.

3.74. However, several of the debt prevention and management tools enabled by smart meters have yet to be tried and tested. To take a fully informed and considered view of the appropriate balance in the full portfolio of tools, we need to understand better how suppliers will make use of the new functionalities, how these are perceived by consumers, and the extent to which more traditional and essentially unaffected tools remain in place over time.

3.75. This focus area constitutes a review, in time, of the full range of debt management and prevention tools available to suppliers and consumers. This does not mean that we are taking our eye off debt management and prevention *per se* in advance of this. It remains a core focus for Ofgem and a fundamental element of our duty to protect energy consumers, and runs across several of the earlier focus areas within the proposed Consumer Empowerment and Protection work programme. This includes 'Prepayment' and 'Billing accuracy and options', which form part of a broader debt prevention and management umbrella while constituting unique focus areas in and of themselves.

3.76. We will also continue to monitor, throughout the work programme, the application and effectiveness of existing arrangements and the use of various debt management tools, eg through our Social Obligations Reporting work. This also

³⁷ Suppliers currently do not use this functionality. Licence Conditions introduced through the Spring Package set out that load limiting amounts to disconnection in certain circumstances.

includes the monitoring of supplier behaviour in blocking consumers switching in certain circumstances³⁸.

3.77. For micro-businesses, there will also be a substantial change to the portfolio of debt prevention and management tools available. We therefore think it is relevant and appropriate to address this focus area for domestic and micro-business consumers alike, recognising that the current arrangements differ substantially between the two groups. In advance of this work, we will continue with our efforts to ensure suppliers adopt good practices with regards to non-domestic debt and disconnection, and continue to monitor performance against these.

³⁸ Smarter Markets – Change of Supplier update. Ofgem, 2013.
<https://www.ofgem.gov.uk/ofgem-publications/84902/ofg505smartermarketsupdate1113web.pdf>

4. Next steps

Question 6: How would you like to engage with us throughout this work?

4.1. This consultation will be open for a period of approximately 9 weeks. This reflects the fact that it will run across the holiday period. The final date for submitting responses is **Friday 14 February 2014**.

4.2. On concluding the consultation process, we will consider all responses in finalising the overall work programme. In Q2 2014, we will issue an overview of the consultation responses alongside the updated work programme for the Consumer Empowerment and Protection project.

4.3. Our response document will also include a detailed workplan for the final focus areas of phase 1. This will include the steps we will take to further develop our evidence base eg through information requests, calls for evidence, and primary or secondary research. It will also set out our stakeholder engagement approach for each focus area.

4.4. We will also include further detail on how we will approach micro-business consumers in each focus area. We will take a view on whether it could be effective to address domestic and micro-businesses jointly, or whether it would be more appropriate to address micro-business consumers separately within any given focus area.

4.5. We will also set out our approach to measuring the success of the Consumer Empowerment and Protection work, both in terms of the project itself and its contribution to the broader Smarter Markets Programme.

Appendices

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Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by **Friday 14 February 2014** of and should be sent to:

Bart Schoonbaert
Ofgem Consumer Policy
9 Millbank
London
SW1P 3GE

bart.schoonbaert@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

CHAPTER: Two

Question 1: Do you agree with our proposed approach to micro-businesses?

CHAPTER: Three

Question 2: Do you agree with the focus areas we identified?

Question 3: Do you agree with the objectives we set out?

Question 4: Do you agree with the proposed phasing of work, or do you think some areas should be brought forward or pushed back?

Question 5: Do you think we have missed any areas to focus on? When do you think we should address these?

CHAPTER: Four

Question 6: How would you like to engage with us throughout this work?

Appendix 2 - Glossary

A

Aggregator

A third party intermediary specialising in coordinating or aggregating demand response from individual customers to better meet industry parties' technical requirements for specific routes to market.

D

Demand-side response

Actions by customers to change the amount of electricity they take off the grid at particular times in response to a signal.

L

Low Carbon Network (LCN) Fund

As part of the electricity distribution price control arrangements that run from 1 April 2010 to 31 March 2015, Ofgem established the Low Carbon Networks Fund. The Fund allows up to £500m support to projects sponsored by the DNOs to try out new technology, operating and commercial arrangements. The objective of the projects is to help all DNOs understand what they need to do to provide security of supply at value for money as Great Britain moves to a low-carbon economy.

T

Time-of-use tariffs

Energy tariffs that charge different prices at different times of the day, week, month or year.

Appendix 3 - Feedback Questionnaire

1.1. 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:

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

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk