

14 February 2014

### **British Gas response to Consumer Empowerment and Protection in Smarter Markets**

British Gas agrees that it is important that consumers, both domestic and non-domestic, should be empowered and protected where necessary. Future markets offer immense scope for engaging and empowering customers through innovative products such as time-of-use tariffs and smart prepayment. They offer a revolutionary opportunity for customers to transform the relationship that they have with their energy and energy supplier.

In this consultation, Ofgem has recognised the benefits that these new products may bring to customers. We fully support Ofgem exploring how any barriers may be removed so that consumers are able to freely engage with an evolving energy market and suppliers have the environment to develop and offer innovative propositions. We welcome Ofgem recognising that Retail Market Review (RMR) for time-of-use tariffs should be considered as part of phase one, as we are already seeing future innovative tariffs that may require the evolution of the current RMR requirements.

Consumers with smart and traditional meters are already afforded a significant degree of protection through the supplier licence conditions, including those brought about by the RMR. We consider that these obligations provide significant and sufficient protections for both current and future customers.

The consultation explicitly sets out that it is important to 'strike the right balance' of protecting consumers while not having overly prescriptive regulations that may stifle innovation. British Gas supports this philosophy and therefore we are disappointed that, in this document, Ofgem has suggested that this balance should largely focus on the potential disadvantages that innovative products may bring. British Gas believes that the new products referred to in this document have much greater scope to benefit and empower customers than they have to deliver consumer detriment.

While we do not advocate prescriptive regulations we note that the energy industry is likely to evolve such that third parties enter the market and develop relationships with energy customers, both business and domestic. This delivers the benefit of greater competition, but it is important to ensure that there is protection in place for these consumers should these organisations act in a manner that is not commensurate with the obligations within the supply licence. It is also important to ensure that there is an open and competitive market so that all parties, including suppliers and third parties, may compete on a level playing field.

We are entering a time where industry change will be at unprecedented levels, including significant change programmes to support faster switching and DCC operations. It is important to ensure that changes arising from Phase one are managed alongside these other material industry changes, which are following similar timelines.

The answers to the questions specifically asked in the consultation document are attached as an appendix to this letter. If you have any questions on this response, please contact Tabish Khan on 07789 575 665 or [Tabish.khan@britishgas.co.uk](mailto:Tabish.khan@britishgas.co.uk)

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## **Appendix: Consultation Questions**

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

We agree with Ofgem that it would be more efficient to consider micro-businesses within each focus area in turn, rather than as a separate work stream. However, in practice, this may need to be considered on a case-by-case basis at the outset of each phase and focus area.

We note for instance that some of the strands of the consumer empowerment and protection proposed work streams may be less applicable, or not applicable, to micro-businesses. For example, as you note, Retail Market Review (RMR) and time-of-use tariffs are not applicable to micro-businesses as the RMR tariff requirements only apply to domestic consumers.

Ofgem's non-domestic RMR proposals recognised that in some ways micro-businesses behave differently to larger non-domestic consumers and therefore they should be afforded appropriate protections. The standards of conduct for micro-businesses, within the supply licence, recognise this fact and afford significant protections for these consumers.

We would also like to highlight that there are distinct differences between micro-businesses and domestic consumers. Any new regulation of the micro-business sector should reflect the unique characteristics of that customer segment rather than simply extending domestic provisions. Moreover, we would urge caution before introducing any further regulation specifically in relation to micro-businesses that might have the unintended consequence of stifling innovation within the proposed Phase two work.

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

We agree with the focus areas identified. We have comments on the objectives contained within each topic and the proposed phasing but we have elucidated these concerns and questions in the answers below.

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

In answering this question, we have set out our views on each of the nine focus areas. Though we recognise that Ofgem has only proposed objectives for the Phase 1 topics, we have included our initial thoughts on Phases 2 and 3 as well. We would welcome the opportunity to discuss each section in a bilateral meeting with Ofgem.

#### **Prepayment**

The pre-payment segment is one which will benefit from a step-change in convenience and customer experience from smart metering, bringing energy onto a comparable footing with other digital services.

Smart prepayment offers the potential to transform almost every facet of the current prepayment experience. It will enable:

- customers to remotely top-up from the comfort of their own home;

- suppliers to revolutionise, and minimise demand for, the ‘wind on’ process so customers are no longer reliant on a site visit;
- an auto top-up process for when credit reaches a pre-agreed level; and
- Suppliers to monitor self-disconnecting customers and offer them appropriate assistance. British gas already monitors prepayment customers for self-disconnection but this process could be greatly improved with access to smart metering data.

Other customer benefits include the greater awareness of energy consumption that comes with having a Smart meter<sup>1</sup>, the ability to manage usage via an in-home display device, including low credit alerts for those customers who do not want to opt in to an auto top-up process, and tailored reporting for customers to better manage their future energy consumption. These tools will be of great help to all customers and particularly those who have their prepayment meter in a part of the home that is difficult to access.

We are disappointed that this consultation, while highlighting some of the benefits of smart prepayment, has focussed to a large degree on the potential risks for these customers. British Gas sees smart prepayment as an opportunity to positively transform the customer experience for those customers using prepayment, by removing the stigma associated with this payment form and encouraging uptake of smart prepayment as a lifestyle choice. This is a view that has been enthusiastically endorsed by customers in focus groups we have been running to help us to shape the content of our smart pre-payment service.

We agree with the spirit of Ofgem’s objectives in this area in terms of protecting customers but we are concerned that risks that may never materialise will result in a hesitant approach to smart prepayment that could stifle innovation in this sector. Therefore we recommend that the aims of this work are to establish an environment that fosters innovation and improvements in the customer experience, rather than specific areas where they will need to be protected.

As with any emerging market, a monitoring approach in the early stages is the most proportionate approach with regulation being considered only if there is evidence that smart prepayment offerings are not protecting or empowering customers.

We further propose that this work stream is included in phase two. At this point in time the market will have had time to grow and Ofgem and the industry will be in a better position to determine whether any further protections are needed.

Though we recognise that any risks associated with smart prepayment are more likely to have a customer impact than is the case with credit mode, we are keen to ensure that the fear of these risks coming to fruition does not undermine confidence nor lead to overly prescriptive regulation for this emerging and innovative sector, which has a much greater capacity for consumer benefit than for detriment.

Ofgem has suggested that suppliers could identify, manage and address issues of customers self-disconnecting on a regular basis, but there will be instances where the current data access restrictions would require customer agreement to use their data for this purpose.

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<sup>1</sup> Oxford Economics report on ‘the value of smart metering’

Ofgem has also raised concerns around the time it may take for remote top ups to become effective and what happens to a customer when the communications infrastructure is not functional. Even a 45 minute top-up may be seen as more convenient than having to make the journey to a shop in potentially inclement weather, queueing, purchasing credit and then return to top up their meter.

We will work with service providers to minimise delays, but do not see this as an area requiring regulation. However, we accept that it is appropriate to monitor total transaction times (from vend to meter) and customer satisfaction.

Our trials with smart prepayment delivered a high net promoter score (NPS) and positive feedback from customers. We would be happy to share this information with Ofgem at a future bilateral meeting.

We further note that communications failure to the meter should be rare now that a fit for purpose data communications company (DCC) has been procured by the Government on behalf of the industry through the Smart metering programme. Despite this, we do recognise that communications failure may happen on occasion but note that manual top up options will be available to cater for these rare occurrences. It is in the supplier's interests to ensure customers know how to top up when a remote option is not possible as it will minimise the costs of managing customer queries and complaints that would inevitably result if customers are not aware of this process. There will also be non-disconnect periods still in place for smart prepayment customers so this should reduce these risks further.

One other legislative change that may be required is to recognise smart metering in the Gas Act and Electricity Act. These Acts were written with traditional meters in mind so the processes for disconnection and switching to prepayment are logically linked to a supplier's right to enter a customer's premise. With remote mode switch possible with smart meters, it seems reasonable to re-visit the Acts to identify the changes that may be required.

Ofgem has flagged the risk of erroneous mode switches as the supplier will be able to initiate this change remotely. Though suppliers will put in place control processes to ensure this will not happen, we recognise that it is impossible to give a guarantee that it will never happen. In these rare instances the most important obligation should be to ensure that it is rectified quickly and this is the measure that suppliers should be held to rather than avoiding erroneous mode switches altogether.

Ofgem's Spring Package brought in protections for smart prepayment customers, and any further regulation in this area would need significant justification to provide any protections beyond what is already in place; especially considering that this market is still emerging.

Smart prepayment is a market with significant scope for a range of offerings in terms of speed and level of service through competition. It has the potential to drive innovation between suppliers as they develop more bespoke and customer-friendly prepayment propositions. It would be regrettable if detailed regulation were to curtail or constrain the furthering of competition within an emerging market.

### Billing accuracy and options

We agree with Ofgem that smart metering should reduce the use of estimated readings for billing and that as many customers as possible should be billed on actual reads. This is in the interest of both customers and suppliers. However this aspiration will not always be possible to fulfil due to the nature of communication with a smart meter and factors outside of a supplier's control.

There are circumstances that may prevent suppliers from accessing read information from the meter, including a DCC network failure or outage, obstacles such as large vehicles parked outside the property or metallic objects being placed close to the communications hub. These scenarios, coupled with the fact that some customers will have opted out to allow only a single monthly read, may prevent actual reads being used, particularly if the customer is on monthly billing. If a read is not available in the 'billing window' then the estimate that will be used will be a better-informed and more accurate than is available with traditional metering.

The aim to have 'no reliance on estimated reads' is a target that all suppliers should aspire to, tempered by recognition that this will not always be possible. We would be happy to share our experiences on the barriers and technical challenges we have had to overcome to reach this target.

We would recommend that Ofgem's initial approach is to monitor the levels of smart meter billing to actual reads as the rollout commences. Once the smart rollout is well under way and if the number of customers receiving estimated bills is below Ofgem and customer expectations then new regulation may be a proportionate recourse.

### RMR for time-of-use

Whilst simplifying tariffs and providing clearer information to customers will have wider benefits, the RMR also has the potential to stifle future innovation of time of use products. Ofgem has previously acknowledged that the RMR was not designed for the future world of smart metering, and we welcome Ofgem's proposal to investigate how time-of-use tariffs interact with RMR as a prioritised work stream of the Consumer Empowerment and Protection project.

British Gas recognises that the RMR is designed to reset the market for the current tariffs on offer, and for the short term the option of five meter types and the four tariff cap provide a fair allowance for smart meter specific tariffs.

In the medium and long term however, as the market for time-of-use tariffs evolves, the RMR should not prevent customers from realising the full benefits of smart metering by choosing engaging and innovative tariffs. We are currently in a stage of product development where we are exploring options on tariffs for our smart meter customer base and would be happy to share our most recent developments in this area with Ofgem.

As the largest retail energy supplier, with over 1.3 million smart meters installed to date, we would suggest that we are the supplier most likely to lead the way with time-of-use tariffs and therefore most likely to encounter these barriers before any other supplier. An example would be tariffs targeted at customers tailored to the appliances they own and the amount of load they can shift away from peak times. Such a tariff may not be compatible with the current RMR requirements.

The current licence conditions also require suppliers to provide specific details of the date of a future change in price, and the consequent new tariffs that will apply. The current process has consumer protection interests at its heart, but it has the potential to limit supplier's ability to develop and sell smart metering tariffs to new customers who do not yet have a smart meter. At point of sale, the date of the smart meter exchange will not be known, and cannot with any accuracy be agreed. This licence condition therefore prevents suppliers from selling tariffs which operate at a standard, non-smart rate, for a period of time and then automatically move to a smart meter tariff rate following a future installation. This means two separate sales must be completed, one initial sale to allow the customer to change supplier and a subsequent sale of a smart meter tariff once the installation is complete.

This process is complicated and confusing from a customer point of view. We believe it therefore has the potential to limit the take up of innovative and compelling smart meter tariffs to existing customers only. This in turn may mean that the beneficial competitive effects of smart meters are not realised for many years.

The tariff comparison rate is also difficult to implement for time-of-use tariffs as a customer's bill depends entirely on how they adjust their usage to align with off peak rates within each tariff. Therefore it is difficult to estimate what a customer would consume if they were to move on to a time-of-use proposition. We would be happy to use the learning from our current trials to develop a methodology to allow customers to make meaningful comparisons and informed choices between standard and time-of-use tariffs.

#### Tariff innovation

It is unclear to us what level of tariff innovation would sit between time-of-use tariffs that are scheduled to be picked up within phase one of this programme and advanced demand side response (phase 3). Therefore we see no need for a separate work stream because any issues under this category could be picked up within the RMR for time-of-use section.

We note that Ofgem has concerns that time-of-use options will lead to the creation of more complex tariffs yet all the market research we have done suggests that to engage customers effectively, simple tariffs hold the greatest appeal.

If Ofgem is concerned that further tariffs may evolve that have not been accounted for during phase one, we would suggest including an ongoing work stream for tariff innovation that sits across all three phases and is part of the 'monitoring and analysis' work.

#### Provision of consumption data and information

British Gas is aware that access to data and provision of this data to suppliers and / or third parties has the potential to empower customers to better manage their energy use. However, we note that this consultation document references both DECC's plan to revisit the smart metering data privacy rules in 2016 and for Ofgem to revisit the RMR in 2017.

Given these two initiatives, it is unclear to us what extent this work stream should be focused on suppliers. However, it would be beneficial to explore the issues around third parties and this is where we consider that Ofgem should focus their attention for this particular work stream.

Third parties may be able to use customer data to provide a valuable service to customers but there is a risk associated with new and unlicensed organisations entering this market. If they were to attempt to mislead or mis-sell to customers then there is potential to negatively impact the reputation of smart meters. Therefore it is important that they face appropriately regulated access to data.

### Marketing and Sales

Suppliers are already subject to significant controls in this area. The requirements under the standards of conduct for domestic and microbusiness customers, and the smart metering installation code of practice (SMICoP) provide sufficient protections for customers.

However, these obligations do not apply to third parties, nor do the marketing licence conditions within the supplier licence. Without such obligations also applying to new entrants in the third party market, we have concerns that this will increase the scope for consumer detriment.

We have no concerns around new market players offering innovative products to customers, we only ask that there is a competitive and level playing field, and that any risk of consumer detriment is addressed.

### Consumers without a smart meter

We agree that this is an issue that will need addressing towards the end of the decade with questions around - the existing prepayment infrastructure, the reduction in scale of pedestrian meter reads and whether customers with traditional meters should pay a cost reflective surcharge. These are issues that will need an industry wide solution and clarity here may also make it easier for suppliers to meet the smart metering mandate if it is clear how the remainder of customers should be managed, i.e. how best to incentivise customers to have a smart meter installed.

Clarity or guidance on what constitutes all reasonable steps in the context of these customers will prevent the unnecessary wasting of resources and investment and ensure that customers have appropriate expectations set out to them. We believe that smart metering will be attractive for most customers but, for customers who are unsure of the benefits, a cost-reflective incentive may help to deliver the public policy objectives. For customers who are unable to have a smart meter, we would never suggest a surcharge.

### Advanced DSR

We agree that advanced DSR is not yet a mature proposition and therefore it sits most comfortably in phase three. As there is no market developing at present for these types of products we also agree that this market is unlikely to grow significantly until at least the latter half of the smart rollout.

However, development of time of use tariffs will help inform the industry on which types of advanced DSR propositions would most appeal to customers. We recognise that the advent of advanced DSR will be dependent upon electricity settlement reform and that initial discussions in this area will most likely be had within other work streams of the Smarter Markets programme.



## Debt Prevention

The visibility of payment and consumption information afforded by smart meters allows for a much improved customer journey for managing debt. More frequent billing will enable suppliers to offer early assistance to any customers who are struggling to pay the bills or prepayment customers who are regularly self-disconnecting. We believe that it is in the interests of the fuel poor to be offered smart pre-payment before they accrue substantial and unmanageable debts and we will be developing customer journeys to support this.

The smart metering impact assessment places the value of better debt management at over £1 billion and the focus of this work area should be on how to facilitate the delivery of this benefit.

This consultation also highlights the fact that the ability to disconnect remotely will become an option for suppliers. We will take this opportunity to stress that any disconnection of a customer will be a last resort, and the protections in place will be as rigorous in the smart world as they are with traditional meters today. We have not disconnected a domestic customer for debt reasons in over four years and this is an ingrained part of our policy.

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

We are concerned that the 'Foundation' phase of this programme is aligned with DCC go live and the start of the mass roll-out. This will be a busy time for suppliers and our change plan until that date is already very congested. If the Consumer Empowerment and Protection project were to place additional requirements on suppliers which became effective in Q4 2015 then this may be extremely difficult to implement at this time.

With the smart prepayment market still yet to take off, we propose that smart prepayment is not included as part of phase one, but is instead addressed in phase two. This would enable Ofgem to observe how the market develops and therefore be in a better position to determine if any intervention is needed.

It is unclear why there is a separate focus area titled 'tariff innovation' as we consider that the first phase topic of 'RMR for time-of-use' should address any barriers and concerns in this area. If there are any issues that have been identified to date then these should be included within the RMR for time-of-use work stream.

If Ofgem considers that this topic should be retained in case there are future developments in tariffs that won't have been foreseen before 2015 then we would suggest including an overarching topic titled 'enabling tariff innovation' that stretches across all three phases of work. We would still suggest that the RMR for time-of-use work stream is retained as this is a known issue that needs addressing within Phase one.

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

This consultation covers all the relevant aspects of consumer empowerment and protection.

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

The topics identified within this consultation are important to British Gas and therefore we would like to be engaged throughout the development of this work. As the supplier with the largest portfolio of smart meters in GB we have a significant level of expertise and experience in the areas that this consultation seeks to address.

We note that our learnings may prove useful to Ofgem in developing their policy on consumer empowerment and protection. We would be happy to share any pertinent information with Ofgem through bilateral discussions or visits to our operational sites.

We also recognise some of these work areas may require more industry-based solutions and so a series of focussed workshops may be most appropriate, e.g. for deciding how to manage and empower customers without smart meters.

British Gas will continue to engage constructively with the Smarter Markets programme as a whole and with the four individual work streams contained within it.