

Consumer Empowerment and Protection in Smarter Markets

Energy UK response

14 February 2014

Introduction

Energy UK is the trade association for the energy industry. Energy UK has over 80 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and last year invested £10 billion in the British economy.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to Ofgem's consultation on consumer empowerment and protection in smarter markets. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

Executive Summary

Smart metering has the opportunity to transform the energy industry and the way that consumers think about energy. Given the pressures of security of supply, rising wholesale prices and challenging household budgets, it is essential that smart metering is a success. We therefore welcome Ofgem's decision to consult on the Consumer Empowerment and Protection project's high level work programme. It is right that the industry is considering how the regulatory environment can facilitate the realisation of consumer benefits and ensure that consumers not only have appropriate protections but are empowered to get the best out of smart metering.

Working with Ofgem and Government, industry has already undertaken a number of steps to ensure the protection and empowerment of consumers in a smarter market. This includes the development of the Smart Metering Installation Code of Practice (SMICoP), the implementation of Ofgem's 2011 Spring Package and the establishment of the Central Delivery Body (CDB). Energy UK is also committed to undertaking a review of the 'Code of Practice for Accurate Bills' to consider the needs of consumers in a smarter market.

We are, therefore, broadly supportive of the project's proposed work programme. In particular, we welcome the proposed focus on consumer empowerment to help ensure customers can realise the

benefits of smart metering and smarter markets in the long term and would encourage Ofgem prioritise consumer empowerment wherever possible. New protections will of course be necessary in some instances. However, if we are to avoid unintended consequences, it is important that they are based on robust evidence and are proportionate; so as not to stifle innovation in the market.

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

Yes. Energy UK agrees with the work programme's approach. Micro businesses should be considered in each of the nine focus area rather than as a distinct, separate focus area.

It is, however, important that Ofgem recognises that domestic and micro business consumers are not the same and that not all future regulatory arrangements for domestic consumers will be applicable or relevant for micro businesses. As noted in the consultation document, *'an appropriate balance needs 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.'*

Energy UK looks forward to working with Ofgem as it develops its approach to micro business consumers within each focus area.

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

Energy UK is supportive of the nine key focus areas identified by Ofgem as part of the proposed workplan. Broadly speaking, the focus areas provide an accurate, high level reflection of the work we believe Ofgem should be undertaking to help ensure the empowerment and protection of consumers in smarter markets. However, greater clarity is required to understand how Ofgem's work in each focus area will be taken forward. We anticipate that this will develop in subsequent updates of the work programme and look forward to working with Ofgem to shape this.

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

It is important that Ofgem's objectives for each focus area are based on consumers' needs and that these are derived from a detailed and extensive evidence base, which includes regulatory Impact Assessments and formalised, independent consultations. With this in mind, we are pleased to see that stakeholders, including Energy UK and its members, have been given the opportunity to comment on the draft high level objectives for 'Phase 1' of the work programme.

Energy UK's comments on the objectives for 'Phase 1' are set out below.

Prepayment

Energy UK broadly agrees with the objectives set out for the 'Prepayment' focus area. However, given that smart prepayment is still in its infancy, it is vital that Ofgem does not unintentionally stifle innovation through regulation, but rather empower consumers to make the most of the opportunities it creates. We would, therefore, like to raise the following comments for further consideration by Ofgem:

- Relevant protections to ensure the *'safe, easy and proportionate switching between prepayment and credit'* have already been established in voluntary industry codes (i.e. the Energy UK Safety Net for Vulnerable Customers) and supplier policies following Ofgem's 2011 Spring Package.
- Energy UK would welcome further clarification from Ofgem with regards to its expectations around top-up failures and appropriate consumer protections. The Data Communications Company (DCC) will be responsible for ensuring the successful completion of top-ups. It is also important to note that customers will still be able to vend manually via their meter in the event of DCC or Wider Area Network (WAN) failures.

- It is important to ensure that the development and use of smart meter functionalities to support budget management and debt prevention represent an effective and efficient use of resources and deliver tangible benefits to consumers. Crucially, smart prepayment technology needs to be tested and reliable, as the potential harm to consumers if it fails could be substantial. It is important to move quickly towards a smart Prepayment solution, but not at the expense of security and/or reliability for customers.
- Energy UK would welcome further information around Ofgem's understanding of *'optimal emergency and friendly credit arrangements'*. Industry has long seen areas like friendly credit as a potential area for differentiation and, therefore, competition amongst suppliers.
- To ensure that smart prepayment consumers can switch easily between suppliers, credit balances, where applicable, should be refunded directly to consumers (not transferred from the losing to the winning supplier) in a timely and accurate manner following a switch.

Billing accuracy and options

Energy UK agrees with the objectives for the 'Billing accuracy and options' focus area.

As previously discussed, Energy UK plans to review the 'Code of Practice for Accurate Bills' to help to ensure customers realise the benefits of smart metering. The review is planned to begin later this year. Energy UK will endeavour to ensure the review explores and address, where appropriate, the work programme's highlighted objectives.

RMR and time of use tariffs

Energy UK broadly agrees with the objectives for the 'RMR and time of use tariffs' focus area. We would, however, urge Ofgem to adopt the following amendment to its first objective:

"RMR reforms for simpler tariffs and clearer information applied equally to time-of-use tariffs provided that the customer is not misled as a result."

It is important to ensure that any reforms do not lead to unnecessary customer confusion and/or dissatisfaction.

We also note that 'Phase 1' of this programme is currently aligned to coincide with DCC 'go live' and the start of the mass roll-out. This is likely to be a busy and congested time for suppliers and industry systems. Therefore, any additional requirements on industry requiring implementation around this period need to be carefully considered, to avoid disruptions to other programmes and initiatives.

Energy UK looks forward to working with Ofgem as it develops detailed proposals for Phase 1 alongside initial objectives for Phases 2 and 3.

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

Energy UK agrees with Ofgem's proposed phasing of work. It is, however, important that Ofgem remains flexible. Phasing, timelines and focus areas may need to be reviewed and adjusted in accordance with the progress of the smart meter roll out.

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

In identifying its key focus areas, Ofgem appears to have covered the important areas at this time.

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

We urge Ofgem and the Consumer Empowerment and Protection project to continue working closely with the industry along with a wide range of stakeholders as it develops its objectives/proposals for each of the nine focus areas. Energy UK and our members are always willing to discuss with Ofgem ways in which we can work together for the benefit of consumers and the industry.