

Bart Schoonbaert
Consumer Policy
Ofgem
9 Millbank
London
SW1P 3GE

14 February 2014

Dear Bart,

Consumer Empowerment and Protection in Smarter Markets

I am writing in response to Ofgem's recent consultation on Consumer Empowerment and Protection in Smarter Markets.

We welcome this programme of work, which we think provides an effective bridge between the technical market developments which will be brought about by smart metering and Ofgem's ongoing consumer protection work, such as the Consumer Vulnerability Strategy and the Retail Market Review.

Ofgem has successfully identified the risks and opportunities for consumers in a smarter market. Our initial view is that the proposed phases and objectives seem broadly appropriate, both in terms of areas for consideration and the timescales for review. Our main comments are as follows:

- The consultation highlights the need to empower and protect consumers. We think these should be seen as complementary concepts. In many cases the best consumer protection can be delivered by ensuring that consumers are empowered and equipped to protect themselves. If customers are to realise the full benefits of smart metering in the longer term, Ofgem should focus on empowering consumers where possible (which ultimately should also protect them), and introducing specific protections only where necessary, rather than as standard.
- It will be important to keep the timing of phases under review and to ensure that the objectives underneath them are sufficiently fluid to be able to react to market developments.
- The objectives to prevent the use of estimated meter readings and back billing (except where the consumer is at fault), may be better described as objectives to minimise these things. We think that there will be a trickle of estimated readings as a result of various malfunctions and that reasonable back-billing may be appropriate to correct errors in a manner that is fair both to the customer who had not fully paid and the rest of the customer base.

- Careful consideration needs to be given to the pace of introduction of smart prepayment. We recognise the potential of smart prepayment and understand the focus on developing it as soon as possible to allow customers to benefit from the new technology. However, smart prepayment technology also has the potential to cause consumer harm if it is not delivered in the right way. So, while we are committed to facilitating this, we need to do so in a way that delivers a safe, secure and reliable prepayment service as a priority.

Our answers to the consultation questions are in Annex 1 attached. If you wish to discuss any of the points in our response further, please do not hesitate to contact me, on the details above, or Pamela Mowat on 0141 568 3207.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a horizontal line.

Rupert Steele
Director of Regulation

**CONSUMER EMPOWERMENT AND PROTECTION IN SMARTER MARKETS -
SCOTTISHPOWER CONSULTATION RESPONSE**

Chapter 2: Designing the proposed work programme

1) Do you agree with our proposed approach to micro businesses?

We think that it is sensible for Ofgem to consider micro businesses within the scope of the Consumer Empowerment and Protection work programme. In a smarter market, small non-domestic customers will also be faced with new challenges, which they may not be as well equipped to deal with as a larger business. Therefore consideration of protections needed for micro business within the developing market is important. It is right that it will not always be appropriate for these protection or empowerment measures to be the same as those in the domestic market.

At the same time, however, Ofgem's original intention through the strategy - not simply to protect consumers *from* the market, but ensure they have equal access *to* the market and to create the right framework to protect and empower them – is still apt for micro business customers.

We should recognise that the revised definition of micro businesses (as introduced under the Retail Market Review) now covers around 90% of the non-domestic customer base. This covers a very broad spectrum of businesses, not all of whom will need or benefit from specific protections. This broad spectrum should be carefully considered when considering the needs of micro businesses in each case, as a 'one size fits all approach' may not necessarily be the optimal solution for all customers, particularly in realising the benefits of smart metering. Ofgem is right to recognise that there is a delicate balance between ensuring sufficient empowerment or protection for micro businesses and creating regulatory constraints that impact on the commercial relationships between customer and supplier.

We agree that micro businesses should be considered individually within each area of the proposed work programme rather than creating a separate, parallel workstream for micro business customers.

Chapter 3: Our proposed work programme

2) Do you agree with the focus areas we identified?

Yes, we generally agree with the focus areas that the Programme has identified. We agree that flexibility will be needed as the market develops and that this should be recognised in the development of each Phase.

We agree that prepayment is an area that is likely to see substantive change through the roll out of smart metering and therefore that this meets the remit of Phase 1. We believe that smart prepayment has the potential to deliver substantial benefits for customers – both traditional prepayment users and customers who do not use prepayment in its current guise but would appreciate the benefit of a more flexible, convenient and reliable payment method. We must still be mindful however that, due to the nature of prepayment technology, problems with the metering equipment, communications or prepayment infrastructure, or failures in the smart prepayment systems could have significant and potentially harmful effects on customers. The complexities here are greater than 'credit' smart functionality.

Our aim therefore should not be to deliver smart prepayment in haste at the start of the programme, but to deliver it properly, within as quick a timescale as we can while still being confident that it can deliver the benefits without increasing the risk of consumer harm (such as build-up of debt due to missing payments, problems with the ability to top up etc).

We also agree that billing accuracy should be an important focus area for Phase 1. This is a fundamental issue for suppliers however, and suppliers have clear commercial and competitive incentives to improve billing accuracy across the board. It may be helpful to make a distinction between

- short term ‘teething’ issues (such as where previous billing problems come to light as better quality of readings are obtained); these will be resolved in due course by industry action but will require consumers to be empowered to understand and query where appropriate);
- new sources of billing error that could arise as a result of more complex metering and billing systems (notwithstanding the fact that overall levels of billing accuracy are likely to substantially improve).

3) Do you agree with the objectives we set out?

Yes, we agree broadly with the proposed objectives for the three focus areas in Phase 1 (subject to our comments in our response to Question 2 above). The objectives to prevent the use of estimated meter readings and back billing (except where the consumer is at fault), may be better described as objectives to minimise these things. We think that there will be a trickle of estimated readings as a result of various malfunctions and that reasonable back-billing may be appropriate to correct errors in a manner that is fair both to the customer who had not fully paid and the rest of the customer base.

We also agree that it is appropriate to consider the objectives for Phases 2 and 3 at a later date, to take account of market developments.

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

We think that the proposed phasing of work is generally appropriate at this stage. We do think it will be necessary to keep this phasing under review and ensure that there is sufficient flexibility to adjust it as required as the market develops.

One area of focus for Phase 3 is to look at the possibility of differentials in pricing between smart and dumb meters, to reflect the fact that customers who refuse to have smart meters installed will ultimately impose increased service costs on their suppliers. The existence of such cost reflective price differentials has proved helpful in minimising long term smart meter refusals in other countries. We note that Ofgem does not consider it would be appropriate to introduce price differentials before rollout is complete, but we still believe it could be helpful to raise consumer awareness of this possibility in the course of rollout. We would therefore encourage Ofgem to bring this focus area forward to the start of Phase 3 or earlier so that consumer groups and other stakeholders can be engaged on this matter at an early stage.

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

We are not conscious of any focus areas that have been missed from the work programme.

Chapter 4: Next steps

6) How would you like to engage with us through this work?

We are keen to work closely with Ofgem on this work programme and think that there will be real benefits for both the work programme and industry processes, of suppliers being closely involved in this work.

We would appreciate early sight from Ofgem of the detailed work plan and intended evidence base that Ofgem seeks to build. In particular, the demands of responding to ad hoc information requests can be substantial and the ability to plan for these in advance is particularly helpful (and can also help Ofgem get the best results from suppliers).

Given the scale of the work, we think it might be sensible to establish an industry steering group for the programme (which could meet quarterly or 6 monthly) to help to set milestones and track delivery against each of the programme phases. This steering group could be supplemented by bilateral engagement with stakeholders as and when required.

We think it is right to consider micro business customer issues as part of the same overall programme as domestic customer issues but with separate consideration of the issues within each Phase, as often the issues affecting micro business customers will be quite distinct from those for domestic customers. This was the approach taken under the Retail Market Review programme and we think it worked well, allowing issues to be considered under the same themes and on a parallel programme of work, but allowing the division of appropriate expertise as necessary.

ScottishPower
14 February 2014