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Consultation Response

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Consumer Empowerment and Protection in Smarter Markets

Which? is the largest consumer organisation in Europe. It is an independent, not-for-profit consumer organisation with almost 800,000 members. Which? is independent of Government and industry, and is funded through the sale of Which? consumer magazines, services and books. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives.

Smart meters should bring a welcomed end to estimated billing. They should also enable consumers to develop a better understanding of how they use their energy and how this relates to their bill. In future, smart meters may also enable consumers to have greater flexibility over how they pay for their energy, as well as facilitating new smart tariffs.

However, the success of the smart meter roll-out and realising the potential of a smarter energy market will require consumers to be bought in to the benefit and potential of a smarter market. We consider there to be three interrelated elements that are key to securing consumer buy-in:

1. The current retail market must work for consumers

Smart meters are being rolled out by the energy suppliers. As a result, consumers' attitudes towards smart meters and the roll-out will be affected by their perceptions of suppliers and experience of the retail market. And so, if they do not trust the sector (and currently only 20% of consumer do trust providers)¹, consumers are more likely to be suspicious of the roll-out. A result of which is that they will reject or push back against the roll-out. Furthermore, if consumers continue not to engage with the market and there is a potential risk that the Retail Market Review reforms will not be sufficient, consumers may continue to feel that the market is stacked against them and it may dissuade consumers from engaging with an even more complicated array of tariffs - a point that Ofgem also recognises.

2. The cost of the smart meter roll-out must be effectively controlled

Consumers will need to have confidence that the cost of the roll-out will not cause their bills to spiral and that every efforts is being made to keep costs down. DECC's latest Impact

¹ 20% of consumers trust energy suppliers, Which? Consumer Insight Tracker, February 2014, <http://consumerinsight.which.co.uk/tracker>

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Assessment estimated the cost of the roll-out to be £11 billion² and there are no guarantees that smart meters will lead to definite cost savings on individual bills. Suspicions of additional, unnecessary costs will negatively impact the roll-out and acceptance of new products and services associated with smart meters. As Ofgem are aware, a top financial concern of consumers is the cost of energy. Therefore it is essential that the potential of smart meters to help consumers manage and ideally reduce their energy costs is realised.

3. The smarter market must work for consumers

Consumers will need to be confident that a new smarter retail market does not result in fewer rights or poorer options available to them. The information, products and services enabled by smart meters must help and empower consumers and not undermine their ability to understand and manage their energy consumption and costs.

Which? does not have confidence that the current arrangements will sufficiently deliver against the first two factors. Consumers have low levels of trust, with the majority of households reluctant to engage in the market. Despite implementation of the Retail Market Review package, we remain unconvinced that it will deliver the 'simpler, clearer and fairer' market Ofgem envisages. We believe that more can and should be done to simplify prices and empower consumers and as part of our *Fix the Big Six* campaign we are calling on the regulator to do so. However to deliver a market that consumers can be confident works for both them and shareholders more radical action is needed and that is why Which? is also calling for a Phase 2 investigation into the energy market following the State of the Market assessment.

The lack of an effective cost control mechanism for the smart meter roll-out programme is another example of the energy sector failing consumers. At a time when household budgets are squeezed and energy prices are consistently a top financial concern, it is crucial that the cost of the smart meter roll-out are kept in check. Yet DECC are relying on the retail market to control the cost of the roll-out, despite competition in the retail market being widely accepted as being ineffective. This is inappropriate and irresponsible and we are calling on the government to change their approach and to also publish ongoing costs and predicated costs on a regular basis.

We consider that the *Consumer Empowerment and Protection* programme plays a fundamental role in ensuring that the new smarter market works for consumers. This programme must ensure that the regulatory landscape protects consumers' interests.

The Consumer Empowerment and Protection work programme

It is neither possible nor desirable for the Consumer Empowerment and Protection team to address all the issues set out in the consultation at once and the proposed approach of three project phases seems sensible. We also broadly agree with the proposed focus areas. However we propose two changes to the structure of the programme. First *Tariff Innovation* should be moved back to the final project phase. Second *Debt Prevention and Management Tools* should be brought forward to Phase 2.

² Smart meter roll-out for the domestic and small and medium non-domestic sectors (GB): Impact Assessment, DECC, January 2014



Tariff Innovation should be moved back to Phase 3

We propose that Tariff Innovation be moved to Phase 3 for two reasons. First, consumers need access to data, and second, a level of market penetration is needed to enable industry to identify the opportunities for smarter tariffs.

Consumers need to understand their consumption

As Ofgem sets out, the potential range and complexity of new smart tariffs is considerable. But common to these concepts of smart tariffs is that consumers will need to understand their detailed consumption and the implication of using (or not using) energy at a specific time. Consumers therefore need to have access to consumption information in order to determine whether a smart tariff would be appropriate for them. Currently *Provisions of Consumption Data & Information* is planned to run in parallel to *Tariff Innovation* (in Phase 2). However we are concerned that this will not give consumers adequate time to familiarise themselves with their consumption patterns or provide Ofgem with time to ensure that information provision is fit for purpose, while at the same time supplier may begin offering new smart tariffs that consumers have a limited ability to assess and may mis-buy. As a result, we propose that the *Tariff Innovation* work is moved to Phase 3.

Smart meter penetration and links to DSR and settlement reform

In addition to consumers being able to understand if a smart tariff may be appropriate for them, the industry must also be able to assess what commercial value there is and how to realise this. While Time of Use tariffs will not be the only tariff innovation, they are likely to form a large proportion of smart tariffs. Reflecting the likely nature of these tariffs, we consider that it would be more effective to align the *Tariff Innovation* work with the DSR and settlement review focus areas, in the final project phase. We do not believe that DSR should be brought forward as we agree with Ofgem's position that a certain level of market penetration of smart meters will be necessary in order for suppliers, DNO and other players to identify the potential of DSR and so Time of Use Tariffs.

We recognise that there may be appetite to address Tariff Innovation earlier in the programme in order to consider it as part of the RMR review. We do not believe that our proposals preclude the RMR review from considering the evolution of Time of Use Tariffs. The review can begin to assess the pilots and derogations, and this in turn could form the foundation work for the smarter markets *Tariff Innovation* work.

Debt Prevention and Management Tools should be brought forward to Phase 2

As Ofgem sets out in this consultation, smart meters will enable new debt management options. It is crucial that Ofgem develops a good understanding as soon as possible of how suppliers are using these new options, and where necessary takes steps to ensure that consumers are protected and treated fairly. This should happen no later than Phase 2 of the work-programme. This work should also be complemented with an exploration of whether and in what way consumers are using smart meters to self-manage debt.

Leaving this important work to Phase 3 will leave consumers vulnerable and may result in detriment. Furthermore, it would not be surprising if concerns of poor debt management obtained media attention that could then go on to undermine trust in and engagement with the roll-out.



Accurate billing and back billing

The *Consumer Empowerment and Protection* programme must also ensure that smart meters deliver accurate billing. It is not acceptable that 15% of consumers with a smart meter are not receiving an accurate bill.³ Smart meters must also serve an end to back billing. Yet under the Back Billing arrangements set out in the voluntary Energy UK Code of Practice for The 'Accurate Bills' code still allows for suppliers to bill their customers for up to 12 months of usage even after a smart or advanced type meter is installed, when first bill consumers receive following the installation should reconcile the account. This is not acceptable and Ofgem must take steps to quickly address these failures. Failing to do so will be, and will be seen to be, a failure of smart metering to deliver these most basic but fundamental services despite consumers paying over £12bn for the technology. Furthermore, a failure to deliver such basic services will likely undermine consumers' confidence in the technology.

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³ GfK Consumer Research - Q313. Base 12,000 people online, weighted to be representative of the GB population in terms of age, social class, size of household, type of dwelling, household working status and region. But not specifically bill payers. This figure excludes those who claimed to have smart meters but actually only had clip-on electricity displays (5 percent), those who had not received any bills since having the smart meter installed (8 percent) and those who did not know if their bills were accurate or estimated (5 percent).