

Consumer Empowerment and Protection

Smart Billing policy workshop

7 May 2015

ofgem

- 13.00 – 13.15** Welcome, introductions and objectives
- 13.15 – 14.40** Objectives 1&2 – limiting backbills
- BREAK*
- 14.55 – 15.15** Objectives 1&2 – accuracy publications
- 15.15 – 15.35** Objectives 3, 4 & 5
- 15.35 – 16.10** Delivery models
- BREAK*
- 16.20 – 16.30** E.UK update on smart commitments
- 16.30 – 16.40** E.UK/ICOSS update on microbusiness voluntary standards
- 16.40 – 16.50** Citizens Advice update on forthcoming report
- 16.50 – 17.00** Wrap up and AOB

- Share our emerging views and draft policy proposals on smart billing ahead of a public consultation in the summer.
- Test specific policy elements to further inform our thinking prior to consultation.
- Provide the opportunity for presenting other stakeholders' work relevant to smart billing.

We consulted last year on our objectives for smart billing...

Smart billing - high level objectives

1. No reliance on estimated meter readings
2. No back-bills where the consumer is not at fault
3. Timely and accurate opening bills, final bills and rebates
4. Accurate bills supported by convenient and effective billing frequency and payment method arrangements
5. Appropriate direct debit calculations based on accurate consumption data

Welcome, introductions and objectives

Objectives 1 & 2 – Limiting backbilling

BREAK

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BREAK

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Wrap up

Objective 1: no reliance on estimated meter readings (accuracy)

Objective 2: no backbills where the customer is not at fault

- Stakeholders identified smart metering risks and opportunities. These informed our decision to focus on smart billing and to focus on it now. They also informed our objectives for the smart billing work, which we consulted on.
- Smart technology, which consumers are paying for via £11bn programme, should drastically reduce the need for estimated reads and backbills. Consumers have a right to expect this.
- Despite the enabling technology we expect there to be exceptions and errors, especially early on.
- We have a role to play in protecting consumers and minimising detriment in billing, the most fundamental area of interaction between consumers and their supplier.
- Backbilling in particular has the greatest potential for causing consumer detriment ('billshock').
- We have a role to play in facilitating and guaranteeing the realisation of smart meter benefits – especially where these relate to avoiding consumer detriment.
- Consumer and stakeholder expectations of smart in this area are high.

“Smart meters will mean the end of estimated bills”

(DECC, 2014, Smart metering Programme Impact Assessment)

“Once a smart meter is there [...] there should be no reason for people to be able to back-bill. There is no excuse.”

(DECC, 2013, evidence to ECCC)

“... the older population [...] Their serious worry is inaccurate bills and an anxiety about unexpected costs.”

(Age UK, 2015)

“No more letting strangers in to read the meter, no more ‘estimated bills’ – you get accurate bills”

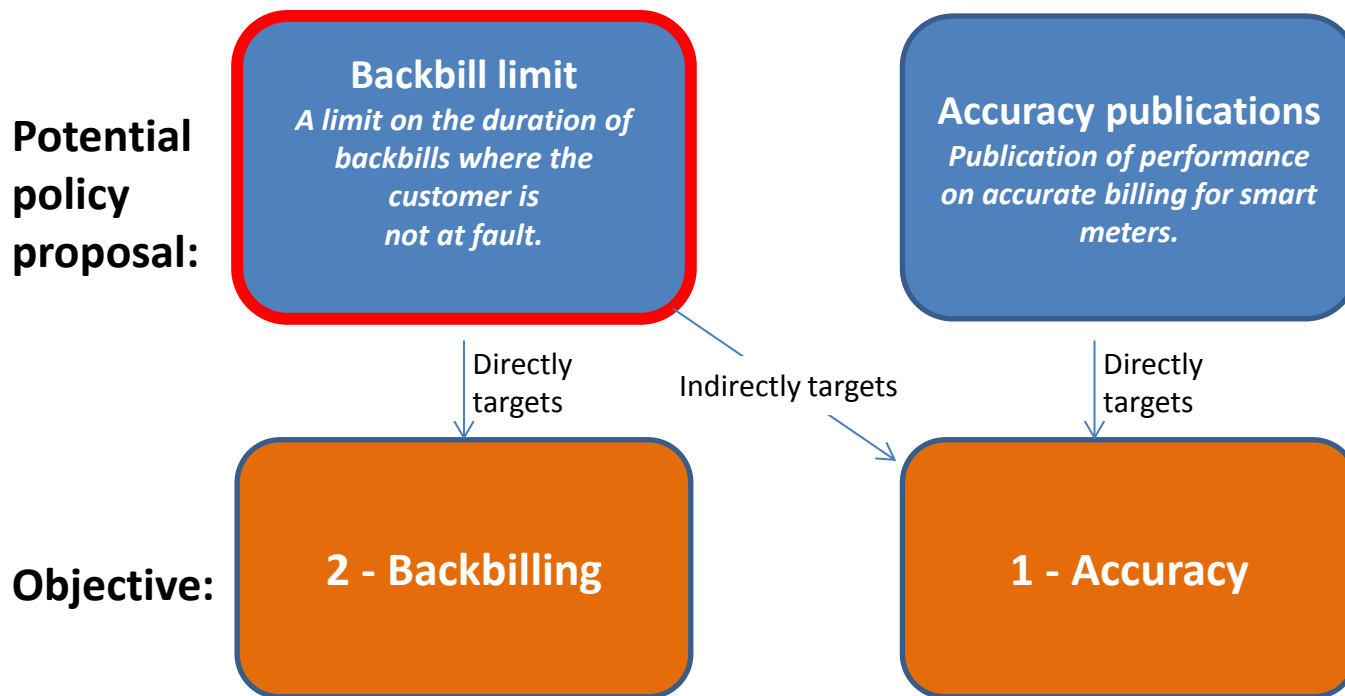
(Smart Energy GB, 2015)

We expect backbilling to remain an issue for some time

- Smart technology should enable suppliers to improve performance on billing significantly. In particular, remote meter reads will eliminate the need for regular estimates, which are a key cause of backbills.
- However, errors and exceptions can occur despite the enabling technology. This is especially true during the introduction of new technology.
- A number of billing issues (eg failure to bill) will not be addressed by remote communications per se.
- Emerging evidence suggests that backbilling can be an issue for smart meters.
 - Citizens Advice IR data shows that a number of customers continue to be billed on estimates post smart meter install.
 - Emerging complaints data show backbilling complaints for customers with smart meters (we recognise that a backbill issued post smart meter installation may reflect traditional meter consumption).

We are calling for further evidence relevant to this position, now or in response to our summer consultation

Having considered multiple options, our emerging view comprises two potential complementary policy proposals.



*We **do not** propose to consider accuracy or estimate targets or thresholds.*

Our initial view is that focusing on a backbilling limit for smart meters is an appropriate approach to help achieve our objectives. It targets the area of greatest potential detriment, and further incentivises performance on accuracy.

There would be several specific elements to consider:

- Customer at fault
- Timing of introduction
- Meter types
- Direct Debit
- Duration of limit
- Micro-businesses

We want to get initial views on this approach and the specifics of it.

The limit would apply except where the customer is actively at fault.

We would intend for a limit to exclude (at least) cases where there is evidence that:

- there has been energy theft or deception by the customer.
- the customer has wilfully avoided payment.
- the customer has ignored repeated attempts by the supplier to gain access to the meter (eg to diagnose a fault).
- the customer has failed to inform the supplier upon moving into a property.

Q: Do you have an initial view on this approach?

We would aim for the limit to apply in general by DCC ILO and to apply to a given site 6 months after a smart meter is installed.*

- **In place by supplier ILO***
 - Consumer protections would be in place by the start of mass roll-out.
 - This gives suppliers timely notice to prepare for implementation.
- **6 months post installation**
 - We recognise that, for a given site, there may be short term issues immediately following the smart meter installation, which require a period of time to resolve.

Q: Do you have an initial view on this approach?

**scheduled for August 2016*

In line with our principles for the project we would make the scope as inclusive of different meter types as possible. We consider that the relevant characteristic of meters is functioning remote communications.

Our current thinking is that the policy would apply at least to :

- all SMETS meters operated via remote communications; and
- all advanced meters.

Q: Do you have an initial view on this approach?

Backbills can affect Direct Debits, both fixed and variable, and a limit would look to minimise this potential detriment. However, we recognise the specific nature of Direct Debits and want to avoid unintended consequences – especially around fixed direct debits.

- We recognise that the consistency and predictability of fixed Direct Debits is valued by many Direct Debit customers.
- We have considered this in the pros and cons of backbill time limit options.

Q: Do you have an initial view on the impact of a backbill limit on Direct Debits?

Our objective states ‘no backbills’, but there are arguments to consider moving away from zero in terms of an actual limit.

Option	Pros	Cons
A) 0 months (beyond current billing cycle)	<ul style="list-style-type: none"> Highest level of consumer protection from financial detriment. 	<ul style="list-style-type: none"> Greatest limit on time to identify and fix issues Does not align to standard 6 monthly Direct Debit re-assessments. Requires different and more complex definition of backbill (to exclude rather than include current bill). This would also make the time limit relative to a consumer’s billing cycle.
B) 3 months (including current bill)	<ul style="list-style-type: none"> Appears to be in line with consumers’ expectations (Consumer First research). 	<ul style="list-style-type: none"> Does not align to standard 6 monthly Direct Debit re-assessments.
C) 6 months (including current bill)	<ul style="list-style-type: none"> Allows greatest time for suppliers to identify and fix problems across the main billing cycles Aligns to 6 monthly Direct Debit re-assessments (which we understand to be standard frequency). 	<ul style="list-style-type: none"> Lowest level of consumer protection from financial detriment.

Q: Do you have any initial views on the options and their pros and cons?

Q: Are there any Micro-business specificities we should be aware of in setting out our options?

Traditionally backbills have been a key issue and resulted in significant detriment to Microbusiness (MBs) consumers. This is the third year in which we have monitored detriment for MBs. We are equally concerned with the smart world. In line with our principles for the project, it looks sensible to include MBs in our scope.

- A backbilling limit would therefore apply to both domestic and MBs consumers.
- However, we are conscious of some MBs specificities, for example:
 - Advanced meters may have been installed in MBs premises.
 - In the majority of cases (65%), billing frequency for SMEs is monthly (Datamonitor)
- We are not aware of any industry voluntary commitments to limit MBs backbills in the smart world. This limits our knowledge of industry intelligence of what is achievable.

Q: Do you have any initial views about pro and cons and any unintended consequences of a backbilling limit specific to MBs consumers?

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Delivery models

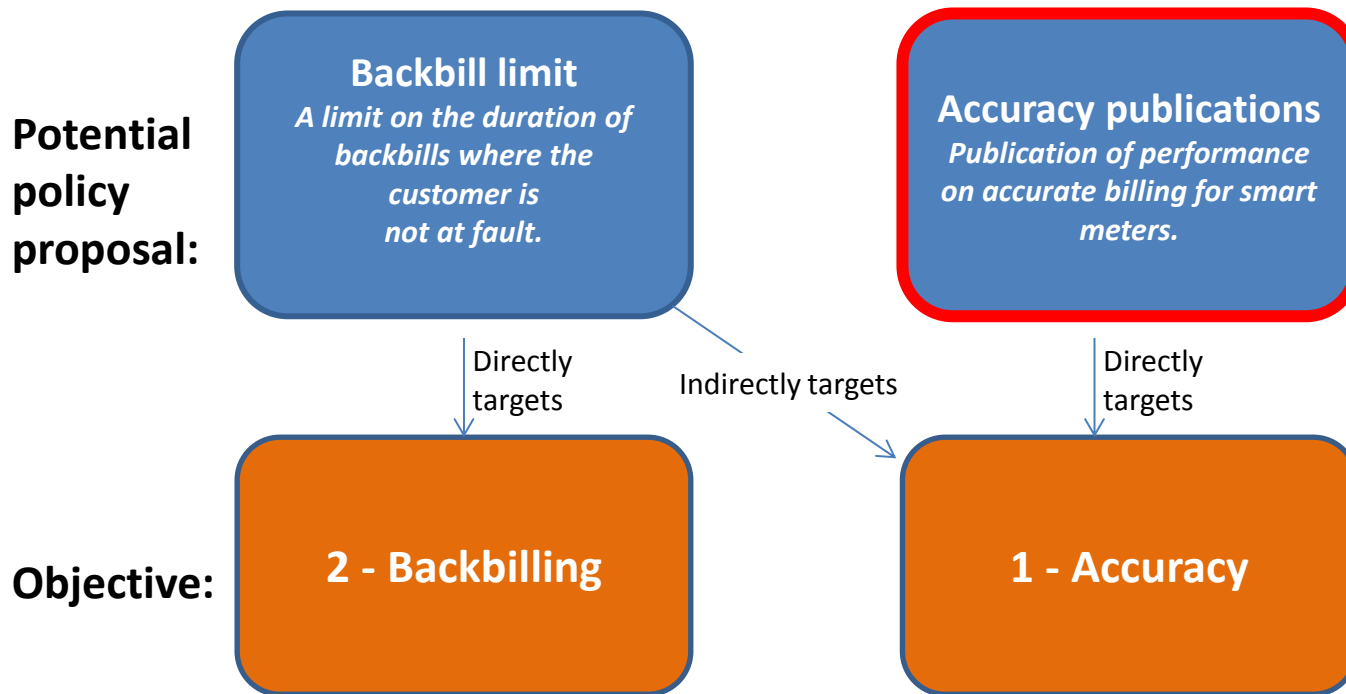
BREAK

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As our second potential policy proposal we consider that publication of billing accuracy performance on smart meters appropriately complements a limit on backbilling.

- Backbilling constitutes the area of greatest potential detriment, but accuracy *per se* also matters to consumers.
- Publishing accuracy performance data, for example on suppliers' websites, would make this information available and easily accessible to consumers.
- In the same logic as, for example, the publication of complaints data, this would:
 - Increase transparency in the market on a key performance metric.
 - Empower consumers to make switching choices based on information that is relevant to them.
- It would provide additional incentives on suppliers to maximise performance in this area, without interfering by setting accuracy or estimate targets/thresholds.

Q: Do you have initial views on this proposal?

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Objective 3 - timely and accurate opening bills, closing bills and rebates

We are not proposing any additional policy

We consider that this objective is largely covered by ongoing work and existing protections. As a result we are not proposing any new policy against this objective .

Area	Covered by
Timeliness of opening and closing bills	<ul style="list-style-type: none"> - CoS meter reading mods* -- aimed in part at speed and accuracy improvements on CoS meter reads - Existing backstop protection of SLC 27.17 (6 week final bill requirement) - Standards of Conduct
Bill rebates	<ul style="list-style-type: none"> - Existing and ongoing work on credit balances - Standards of Conduct

As discussed in our February smart billing workshop, stakeholders suggested that it could be helpful for Ofgem to consider developing principles or guidelines on communicating CoS reads to consumers. We have not progressed this since, but continue to engage with EUK in their related efforts on this. Will engage with you if we take this further.

*We consider that existing protections mitigate potential risks associated with the mods.

As previously communicated, we do not consider it necessary to act on these objectives.

- Objective 4: *“Accurate bills supported by convenient and effective billing frequency and payment method arrangements”*
 - Smart billing research suggests consumers are largely happy with their arrangements.
 - This is a key area for innovation and potential differentiation in competitive offerings.
- Objective 5: *“Appropriate direct debit calculations based on accurate consumption data”*
 - There have been recent commitments from some suppliers to improve refund policies in case of DD overestimates .
 - Policy proposals for objectives 1 and 2 apply to direct debits.

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Framework

Discussed in November and submitted for assessment by stakeholders



Delivery models

Thank you for your input

Criterion	Description	Delivery Model				
		Standards of Conduct	Voluntary code of practice (CoP)	Code of practice (CoP) underpinned by a LC	Outcomes in Licence Conditions	Prescriptive Licence Conditions
		Standards of Conduct				
Coverage	The extent to which the delivery model covers all suppliers and – by extension – their customers					
Monitoring	The ease with which the arrangements can be effectively monitored					
Enforceability	The extent to which non-compliance can be enforced					
Cost and burden	Cost and burden of implementing and maintaining the model					
Flexibility	The ease with which changes can be made if required					
Precedence	The application and effectiveness of current arrangements					
Suitability (of model vs. specific objectives)	The extent to which the delivery model is suited to specific objectives in light of:					
	- materiality of the objective (category) to all or some consumers					
	- extent to which stakeholder incentives are aligned for the objective (category)					
	- extent to which achieving the objective is subject to any timing considerations (eg. setting own timeframes, incremental progress etc.)					
	- general suitability of the model to any specific objective (category)					

- Models are not necessarily mutually exclusive
- Standards of Conduct always apply (across all models)
- Different delivery models could be applied for different objectives



Standards of
Conduct

- General trend towards Principles-Based Regulation
- Self imposing incentives
- Drives innovation & competitive differentiation
- Drives focus on customer service

- Early days
- Modifications are subject to consultation
- Different interpretations

Voluntary
code of
practice

- Existing model
- Flexible
- SoCs have since come in

- Insufficient coverage
- Audit costs
- Lack of clear incentives and public transparency

Code of
practice
underpinned
by LC

- Guarantees coverage of all consumers (vs. voluntary)
- Greater incentive to comply (vs. voluntary)
- Increasingly level playing field
- Increasingly less room for subjectivity

- Ofgem is seeking to simplify the regulations not make them more complex
- Scale of problem is unknown ahead of roll out
- Risk of duplication with Code of Practice
- Risk of misinterpretation if outcomes not clearly prescribed
- Less room for differentiation
- Long lead time/administrative procedures

Outcomes in
LC

Prescriptions
in LC

Proposal	Our emerging view of the appropriate delivery model	Key considerations
1- Backbill limit	Licence modification to introduce a backbill limit – with a sunset clause	<ul style="list-style-type: none"> • This guarantees full coverage: of all suppliers and therefore consumers. → We consider that <i>all</i> consumers should receive a guaranteed minimum standard of protection on this. • This allows for precision and clarity: enables us to specify a minimum standard → A guaranteed minimum level of protection requires a specific and common standard. • This forces a future check-point: built-in through sunset clause. → The requirement would expire unless actively renewed.
2- Accuracy performance publications	Work with industry to develop a solution – eg through regular publication of key indicators as referenced in our Forward Work Programme (p.26)	<ul style="list-style-type: none"> • We believe it is in the interest of consumers to have performance transparency on key service metrics, and our preference is to achieve this through working with an industry solution – eg as we did with complaints publications

Q: Do you have initial views on the appropriate delivery models as proposed? We welcome (further) views on other viable approaches.

Q: In case of taking the backbill limit approach forward, we welcome views on the duration of a sunset clause?

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- We may follow up individual points raised today bilaterally with the relevant parties.
- Please get in touch if you have any further thoughts or questions
- We intend to publish a consultation in the summer.

Thank you for your participation!

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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.