



Making a positive difference
for energy consumers

Department of Energy and Climate
Change

Smart Metering Implementation
Programme

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**Ofgem's response to the Department of Energy and Climate Change's (DECC's)
August 2015 consultation on amending Smart Meter In-Home Display (IHD)
Licence Conditions¹**

We welcome the opportunity to respond to your consultation on your proposed modifications to the IHD licence conditions. Ofgem regulates the gas and electricity markets in Great Britain. Our principal objective is to protect the interests of existing and future gas and electricity consumers. Ofgem's regulatory role includes monitoring and where appropriate enforcing energy suppliers' compliance with the IHD licence conditions.

We strongly support your proposal to allow suppliers to trial innovative approaches to providing consumers feedback on their energy usage. Technology has been advancing quickly, in particular with the rise of smart phones and tablets. Allowing trials should allow you to gather evidence on whether innovative consumer engagement approaches could bring about equivalent or greater benefits at lower cost compared to IHDs. It could also add to the current evidence you have regarding the benefits that IHDs provide if, for example, trials are carried out on alternative engagement tools that replicate some IHD functionality.

Whilst we support allowing trials, we appreciate the strength of evidence gathered by DECC in support of the benefits of IHDs. Until you have further evidence, we think it is a sensible precaution to amend the IHD licence conditions in relation to suppliers offering alternative engagement tools.

Our comments on your specific proposals are set out below.

Headline messages

As far as practical we think you should require that in carrying out the trials, suppliers measure the impact of their engagement tool on different segments of the population. You might expect an IHD would be better for certain types of consumers (for example, multi-occupancy homes or consumers that aren't tech savvy). By understanding the impact on different segments, you can then tailor any policy response.

If in light of the evidence from trials DECC decide to permit alternative engagement tools, it will be important to think through any requirements you impose regarding functionality

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/448900/IHD_Licence_Condition_Consultation_Final_for_publication_2707.pdf

when a consumer switches supplier. We recognise this is a complex area so would welcome more detailed discussions if you do decide to change your policy on IHDs.

Detailed comments on DECC's proposals

Consumer safeguards during the trial

In chapter 3 of the consultation, you list various consumer safeguards and note that you are not minded to maintain the majority of these when a trial is being carried out. For example, there are requirements around ensuring the engagement tool is appropriate to the consumer. We support giving suppliers as much scope as possible to innovate through the trial. Also, suppliers will have incentives to act appropriately in order to build a strong evidence base for the engagement tool they are offering. However, we consider that some of the protections should remain – we discuss these below.

We do not agree that, during the trial, suppliers should be allowed to charge the consumer for the alternative engagement tool for the following reasons:

1. It is consistent with what we consider to be an established (although implicit) principle with the rollout – that the basic smart meter and a tool with which to engage with your usage is offered with no up front charge, and that anything beyond this can be charged for if the consumer requests it (eg enhanced IHDs and smart meters). Assuming that in the future a (basic) alternative cannot be charged for either, maintaining it free of charge for trials sets the right tone and expectation. We believe this to be important in general, but it becomes even more so if suppliers do not have to offer an IHD at the end of the trial.
2. It will provide some discipline to suppliers to maintain high standards during the trial as they will have invested in the trial so would want to make the most of it. This protects against the risk of trials being used to bypass the obligation to offer an IHD.
3. The costs on suppliers shouldn't be excessive given the limited nature of the trials. Moreover, trial customers should be less likely to opt for an IHD at the end of the trial if the trialed product is valued greatly by these customers.
4. It would ensure that the data from the trial is comparable to data on the benefits of IHDs (which are offered for free). Charging for the alternative engagement tool but not the IHD may bias consumers' perceptions during the trial.

If despite the points above you decide to allow suppliers to charge for the alternative engagement tool during the trial, we think it's important that at the point of offer suppliers also offer a free tool (such as an IHD). This would maintain the principle that, at a minimum, you have access to a free engagement tool alongside your smart meter. However, we recognise that this may reduce the quality of the data gathered through the trials.

The requirement to provide information in a clear and intelligible way should remain in place. There are wider protections in the licence around using plain and intelligible language as well as Article 3 (transparency regarding general information) in the Electricity Directive and Gas Directive. To remove the smart specific requirement around provision of information would send a conflicting message to suppliers about their compliance with wider regulations.

Information requirements during the trial

We suggest that DECC considers whether a consumer should know they are part of a trial. Possibly suppliers would get better results if a consumer didn't know (as knowing you are part of a trial could lead to a consumer acting differently). However, given that suppliers

would be derogated from complying with various licence obligations, it could lead to confusion if consumers are not made aware. A consumer may know (eg from national campaigns) that they should be offered an IHD. If they aren't offered one, it could lead to unnecessary enquiries and even complaints. On balance we would prefer consumers were fully informed that they are part of a trial. This is how the Low Carbon Network Fund trials were successfully run.

Consumer safeguards at the end of the trial

DECC asked whether suppliers should be required to offer a free IHD at the end of the trial. We appreciate that consumers are likely to be more inclined to take a free offering and that this may drive up the costs of the rollout. However, this expense would be limited by the nature of the trials being limited in size. If this safeguard wasn't in place then consumers could be left with a poor experience (if the alternative engagement tool was poor) and could leave them out of pocket if they miss out on an IHD and the associated benefits that they provide. As such, we are in favour of consumers being offered a free IHD at the end of the trial.

DECC asked whether, if a consumer turned down the IHD offer, they should have 12 months to change their mind (as happens currently when offered an IHD). We think this is an important consumer safeguard, as otherwise consumers may be put on the spot on the doorstep and may feel pressure to refuse the IHD, but with no recourse to change their mind.

Licence drafting

We have some comments on the current proposed drafting. Our reading of the amended conditions is that suppliers are still permitted to make a CAD available to a customer as an alternative to an IHD provided that offer does not detract from the supplier's offer of an IHD. We would welcome the opportunity to engage with you further on this to ensure the licence achieves your intended policy aims.

If you would like to comment on this response, please contact Colin Down (colin.down@ofgem.gov.uk).

Yours sincerely,

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