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Consultation on Smart billing for a smarter market: our proposals

Dear Bart

Please find below Flow Energy's response to the consultation on Smart billing for a smarter market.

Yours sincerely

Mike Gibson
Operations Director

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CHAPTER: Two

Question 1: *Do you agree with our assessment of the risk of estimates and backbills in the smart future? Please provide any evidence you have to support your answer.*

Flow believe that for small suppliers the number of installs is unlikely to reach the level that has caused the increase in estimates for the larger suppliers. We will only approach these numbers through increasing overall customer numbers and this is likely to be at a pace that will allow us to avoid similar issues.

Question 2: *Do you agree that a time limit on smart backbills is an appropriate response to this risk?*

Flow do not agree that the proposed time limit is appropriate to the risk. Smart metering has the potential to greatly increase the standards of billing in the industry, which will ultimately reduce the majority of backbilling cases. However small suppliers have limited resources, which the smart rollout already puts under significant pressure. The proposed limits will require large changes to processes and unnecessary extra resource to mitigate a relatively small issue which we will discuss further in Chapter Three.

We also disagree with the idea that a backbilling limit will actually incentivise companies to decrease the amount of backbills.

As stated in paragraph 3.23 "Suppliers' billing systems should already be geared towards achieving maximum billing accuracy, with processes in place to deal with errors and exceptions." The reason suppliers' focus so much resource in creating these systems and processes is due to existing drivers. These include lowering the resource required for billing, reducing billing exceptions and managing the resulting queries and complaints as well as hitting settlement targets. All of these have a direct financial effect on business which far outweighs any incentive a backbilling limit would make.

Backbilling limits are important but only as a protection to customers being unfairly penalised for circumstances beyond their control. Any consideration for setting limits should be focused on ensuring this in a practical and fair manner. The assumption that it will incentivise suppliers to reduce the need to backbill more than any of the other existing drivers is misguided and potentially counterproductive.

Question 3: *Do you agree with our proposal to implement such a limit via licence obligations?*

Flow do not believe that a licence condition is the best place to implement the proposal. The current Code of Practice for backbilling has been very effective and the proposed objective could be reached by an extension to this or through a revision of the "Smart billing commitments".

This approach would provide the flexibility required to deal with unexpected developments inherent in new technology and could be backed-up and defined by Ofgem guidance. Despite not all suppliers signing up to the current arrangements it has produced a level playing field, mainly due to the Ombudsman's application of backbilling rules in their decisions.

Question 4: *Do you have any comments on our proposal for suppliers to publish billing performance data for consumers with smart meters?*

Flow have no objection to publishing data, and feel that (if backbilling remained at significant levels) it would be a useful comparison tool for customers. However we believe that the assertion that it will act as a direct incentive to lower the amount of estimated reads and bills is false. Accurate reads are already one of the highest priorities for suppliers. Lack of reads has a detrimental effect on all areas of the supply business, the main effects being the resources required to investigate and correct customers' accounts, the extra customer service resulting from inaccurate billing as well as the overarching requirements of settlement performance.

Against this background any belief that adding any other factors will encourage suppliers to increase their focus on reads any further is misplaced.

A better fit may be to expand the complaints reporting to include complaints specific to estimated bills. This approach would enable monitoring of the ultimate effect on customers.

Question 5: *Do you agree with our proposed treatment of microbusinesses? Please provide details of any reasons why not.*

CHAPTER: Three

Question 1: *Do you agree with our proposal for the duration of a smart backbill limit?*

Flow do not believe the proposed duration for a backbilling limit is realistic or appropriate for numerous reasons.

In many cases estimated bills will be caused by smart meters or the smart meter process malfunctioning. In these cases the methods required to correct the issue are no different to those required for a traditional meter and will require the same length of time to complete. Smart metering may reduce the overall number of estimated bills but it will do nothing to speed up the time it takes to resolve errors.

The suggestion of ultimately moving to a 3 month limit would amount to providing suppliers with no opportunity to correct errors.

Many customers prefer quarterly billing and will remain on quarterly billing regardless of meter type. One billing cycle will often not provide the triggers sufficient to justify rebilling an account.

Flow also disagree with the proposed 6 month limit on backbilling. The assertion that it is standard practice to review fixed Direct Debits every six months is simply not true for a lot of suppliers. Although most may aim for this, in practice it is often not achievable. This is particularly true for small suppliers who lack the resource to perform the reviews as well as deal with the resulting customer contact. Although automation of the process is possible, it is not without its drawbacks. For small suppliers it is often a better option to apply resource to ensuring all reviews are done correctly rather than dealing with the extra customer contact caused by an automated approach with its higher amount of miscalculations.

Even in a case where 6 month Direct Debit Reviews are performed reliably, the overall process including

providing the customer with the required notice and any further contact with the customer takes longer. Although the actual review may be done within 6 months the full process takes longer and the whole process is what needs to be taken into account.

It is hoped that smart metering will encourage customers to become more energy efficient. If this is the case then it will affect different customers in different ways, which in turn would make usage patterns unpredictable and appropriate Direct Debit levels harder to set. Especially as there will be cases where consumption starts to rise again for customers where the novelty is superseded by the needs of modern life. With the added complications of seasonal changes in many cases 6 months will not be sufficient time to judge a suitable Direct Debit level for customers.

Question 2: *Do you agree with our proposed implementation timescales?*

Flow are happy with the proposed timescale for implementation.

Question 3: *Do you agree with our proposed scope of a smart backbill limit? If you disagree with specifics, please provide details.*

Flow are of the opinion that the scope of the current backbilling arrangements in the “Code of practice for accurate billing” works well and any new rules should follow the same model.

We broadly agree with the proposed meter types included under the new rules, however we do not agree that those meters with intermittent faults should be included if a 6 month limit is set. Any physical investigation or correction to a meter whether traditional or smart requires the same amount of time and resource, therefore they should be treated the same.

Question 4: *If you are a supplier, do you agree with our assessment of the implications of the proposed backbill limit for your business?*

Flow strongly believe that the assessment of the implications of applying the proposed limits has been grossly underestimated.

As a small supplier we invest a large amount of resource on identifying and managing exceptions, with an aim of correcting issues as quickly as possible. Tightening the limits as proposed will place a huge burden on these resources especially at a time when the transition to smart metering will already be creating excess stress. This will severely disadvantage small suppliers for whom in-house resource is limited and external skilled resource scarce. Resource limited small suppliers may have to re-allocate resource from other important parts of the business which creates knock on effects to performance and will ultimately be detrimental to customers' accounts.

The current limit of 9 months in the “Smart billing commitments” hits a good balance where any increase in resource required could be balanced by the advantages the smart metering brings. Any shortening on this period will increase the required resource exponentially. So although the system costs may not be great the much more difficult problem of providing staff of an adequate level will be.

CHAPTER: Four

Question 1: *Do you have any comments on our proposed approach to these objectives (on change of supplier, billing frequency and Direct Debits)?*

As previously stated, for a small supplier, the fundamental issue is to provide the best possible service, creating a profitable and successful business and meeting all the industries obligations with limited available resource. This creates a drive towards efficiency and a desire to get things right first time, as any unnecessary issues with customers' accounts require further resource to resolve. The result is to invest in systems and allocate as much resource as possible to create this efficiency and to resolve issues as quickly as possible. This is particularly true with Direct Debits. Alongside meter reads and billing it is a core fundamental area for a supply business and the resulting resource required to deal with incorrect Direct Debits vastly outweighs the resource required to ensure they are correct in the first place.

The biggest risk the proposals create for small suppliers is that inappropriate limits will become counterproductive. Putting undue pressure of on the initial resource in any of the key areas risks creating more issues and errors than they aimed to resolve.