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Dear Mr MacFaul,

Smart billing for a smarter market: our proposals

The FSB represents and protects the interests of the self-employed and owners of small businesses across the UK. The UK's five million small firms account for 99 per cent of UK business sector, employing almost 60% of the private sector workforce.

The FSB has welcomed the opportunity to work with a number of energy companies, represented by Energy UK and ICoSS, to update their Voluntary Standards for backbilling of microbusiness customers. These Standards set an important benchmark for treating customers fairly. They also set a baseline, above which energy companies can compete on the basis of an 'above and beyond' service.

There is still plenty of room for improvement and we are keen to see the energy industry work hard to further reduce the maximum backbilling timescales beyond the current voluntary limits of three years for electricity and four years for gas. In this regard, we acknowledge the work of some individual suppliers to move towards a maximum one-year backbilling commitment, and we await Ofgem's progress report on this subject with interest.

Do you agree with our assessment of the risk of estimates and backbills in the smart future?

Ofgem acknowledge that the Voluntary Standards adopted by Energy UK and ICoSS members are based on a pre-smart market and that the forthcoming rollout of smart meters means that estimated bills and backbills "should no longer be a business-as-usual part of billing". In this regard, the Voluntary Standards as they are currently drafted should quickly become redundant for those using smart meters.

However, the risk of backbilling in a future smart market remains hugely uncertain while so many aspects of the smart meter roll-out itself are yet to be defined or guaranteed for

small businesses. The FSB has expressed concerns that the extensive investment in new smart infrastructure, at great expense to tax and bill payers, will only be worthwhile if all the associated potential benefits of smart meters are realised. There are currently no guarantees in place for this.

In this context, it is concerning that Ofgem considers that estimated bills and backbills “will continue to be a risk in the smart meter future”. It suggests continuing uncertainty around the true value that smart meters will actually bring for businesses.

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

Assuming that backbilling will continue to be a risk in a smart market, we welcome Ofgem’s view that “the backbill limit should apply to microbusinesses as well as to domestic consumers”.

Ofgem must acknowledge the fact that the reasons they cite for this ongoing risk – remote reading failures, delayed data hand-offs, manual reading errors and billing system failures – all appear to reflect supplier error, rather than customer fault. Therefore, the onus should be firmly on the supplier to rectify such problems as they occur with minimal disadvantage to the customer. For this reason, we are supportive of Ofgem’s proposal to set a market-wide limit on smart meter backbills.

Do you agree with our proposal to implement such a limit via licence obligations?

We support Ofgem’s view that backbill limits should be underpinned by supplier licence obligations. The alternative proposal to promote backbill limits through the voluntary Billing Code is less reliable, not least because only a handful of energy companies are signed up to this code. Although these signatories represent the biggest suppliers in the domestic sector, they do not represent or reflect the range of suppliers to the non-domestic sector, particularly in the future where, hopefully, smaller providers gain market share. Including this obligation in supplier licences provides an element of future-proofing as the market changes.

The FSB is keen to work with Ofgem and industry representatives to develop new “smart billing commitments” for microbusiness consumers.

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

Publication of backbilling performance data is absolutely critical. During the ongoing CMA inquiry into the energy market, we have consistently expressed our belief that additional benefits and service standards will play an important role in promoting competition.

Inaccurate billing is a key issue of trust for small businesses in the energy market and, without clear auditing and accountability, this threatens to further erode customer engagement.

Do you agree with our proposed treatment of microbusinesses?

We support Ofgem's proposal that the backbilling limit should apply to microbusinesses as well as domestic customers. However, we are deeply concerned at Ofgem's further proposal that microbusiness, unlike domestic customers, are not included in the publication of billing performance data.

Ofgem has acknowledged the "consumer detriment relating to the value and duration of backbill" and the CMA has stated that "estimated bills can have a negative effect on consumer engagement". Given these assertions, it seems clear that billing performance data could be a key, competitive basis on which microbusinesses will choose their supplier. It seems pointless to impose a backbilling limit on suppliers, then choose not to highlight to consumers when and where these limits are not being met. The rationale offered for this proposal appears to be the fear that many suppliers may fail to meet their target and don't want to advertise the fact.

It is true that microbusinesses present potentially different challenges from domestic customers, but there is little evidence offered that these are insurmountable, particularly for small-scale, low-consumption business customers. A failure to deliver this kind of obvious market benefit for business consumers undermines the argument that the cost of smart meters will be worthwhile.

Do you agree with our proposal for the duration of a smart backbill limit?

The introduction of smart meters represents a once in a generation opportunity to drastically improve energy services for customers. The biggest threat to whether or not this significant investment achieves what it sets out to, and justifies the cost, is the level of ambition shown by Government, Ofgem and energy companies.

Therefore, the FSB believes that an eventual target of a maximum 3 month backbilling limit should be achievable. This timescale is reflective of the ambitious package of improvements that smart meters promise. We would put this, again, in the context of Ofgem's assertion that estimated bills and backbills "should no longer be a business-as-usual part of billing".

However, we acknowledge that any new initiative like this needs to be robust and it is no good to anybody – customer, regulator or supplier – if the system is simply not fit for purpose. We therefore support Ofgem's proposal to initially introduce a maximum backbilling period of 6 months and to then review this in 2020, with the assumption that the period is further reduced to 3 months. However, as well as Ofgem taking account of

suppliers' capabilities in an established smart market during this review, they must also make a careful judgement on suppliers' demonstrated level of ambition.

Do you agree with our proposed implementation timescales?

We are content with Ofgem's proposal that backbilling time limit comes into force six months after a final decision point. This will give suppliers ample time to prepare and implement any changes that are required. However, energy firms should seek to be market leaders in this field and we acknowledge that some firms have already targeted a one-year maximum back-billing period, even under a non-smart regime. We would welcome the opportunity to work with Energy UK and other industry representatives to bring in "smart commitments" as soon as possible.

Do you agree with our proposed scope of a smart backbill limit?

We welcome Ofgem's view that the backbill limit should apply to microbusinesses (as well as to domestic consumers) operating from smart meters that allow remote access to consumption data.

We would raise a note of caution at this point. It is not clear how many small businesses may continue to operate from non-smart meters following the national roll-out of smart meters. For instance, many small businesses operate from sub-meters, for which there is currently no smart solution. These non-smart businesses must not be unfairly disadvantaged as a result of improvements to a smart market, the cost of which they have contributed to, but from which they are excluded. We would urge Ofgem and energy companies to continue to strive for improvements in estimated billing and reductions in maximum backbilling times for these businesses.

I trust that you will find these comments helpful and that they will be taken into consideration.

Yours sincerely,



Allen Creedy
Chairman of the FSB Environment and Water Policy Unit