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2<sup>nd</sup> October 2015

## ICoSS Response to Smart Billing Proposals

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers<sup>1</sup>. Members may also choose to submit responses individually.

### Executive Summary

ICoSS believes that the current proposal to restrict back-billing to micro-business customers via a prescriptive licence condition is flawed for the following reasons:

- A proportionate licence regime for ensure reasonable treatment of customer backbills already exists, namely the Standards of Conduct 12B.
- A prescriptive licence condition on a very narrow subject area is contrary to Ofgem's stated intention to rely more on principles-based regulation.
- In many cases problems in obtaining reads at customer sites are unintentionally caused by customer actions or are due to the location and nature of the site.
- The proposals are based on the erroneous assumption that smaller suppliers are in a position to influence meter asset providers (who in many cases will be their competitors) and be able to pass on costs incurred through their inability to back-bill their customers.
- In the non-domestic sector a large proportion of the market is supplied via AMR devices which have very different technical attributes to smart meters.
- Unlike domestic customers, effectively providing micro-business customers with free energy will subsidise commercial activities to the detriment of their competitors.
- A 3-6 month time-limit will penalise suppliers in circumstances where delays in billing are not their fault.
- This consultation is premature as the market has not had experience of rolling out smart meters.



If implemented as proposed, these proposals will make some micro-business customers far less attractive to suppliers (especially smaller suppliers) and will mean such customers will either be refused supply or required to move onto Pay As you Go (PAYG) products. This will harm the micro-business market and discourage switching, a key issue identified by the Competition and Markets Authority in its recent assessment of the market.

Please note that our detailed responses refer to the non-domestic sector only.

**Chapter 2**

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

There will always be a residual number of estimated meter reads in both markets due to technical constraints in installing equipment, equipment failure etc. however we agree that the overall level of estimated reads should reduce significantly with the ongoing rollout of new technologies.

We do not however agree with Ofgem’s assessment of the causes of estimated bills for smart meters.

Firstly, in many cases in the non-domestic sector the customer either owns their own metering or obtains the service via a third party (such as the site owner). In addition for many smart meters the communications provider is either the monopoly DCC or a big six meter asset provider. For smaller suppliers, the meter provider holds a dominant position in the relationship and this severely limits the ability of the supplier to influence meter provider behaviour or pass on any resulting costs.

Secondly, through extensive experience gained from the roll-out of AMR to SME and microbusiness customers there are two common causes of continuing estimated bills.

- Non-criminal customer activity will prevent reads being obtained, either through damaging the meter installation or some other activity that blocks the meter signal.
- In many cases communications will be intermittent owing to the location of the customer (such as a rural area or in a basement location). These issues cannot be solved or mitigated by the supplier without substantial investment (in many cases providing a dedicated communications line for the site) which is wholly disproportionate for the customer’s requirements.

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

No. There is currently a clear industry framework for ensuring that microbusiness customers are treated appropriately by suppliers, including the standards of conduct (Supplier Licence Condition 7B) which specifically addresses billing and a robust code of practice signed up to by the major players in the market. This framework allows a proportionate and flexible approach to an individual business’s circumstance of the customer.

A prescriptive time-limit removes any flexibility from the process and will increase the risk profile of certain microbusiness customers (those with intermittent signal, etc), which will encourage a drive towards PAYG by suppliers as a mechanism of managing risk, and will discourage some suppliers from supplying certain customers.

**Question 3:** *Do you agree with our proposal to implement such a limit via licence obligations? If not, what alternative would you suggest?*

No. This proposal goes against the current policy set out in Ofgem's simplification plan<sup>2</sup> to rely more on general principles rather than detailed rules.

As stated above there is currently a clear obligation and enforcement route in the Supplier Licence (under the Standards of Conduct 7B), with greater detail set out in the code of practice endorsed by Energy UK and ICoSS. The existing arrangements are sufficient and no further intervention in the competitive non-domestic micro-business market is necessary at this time.

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

This is a question for Domestic Suppliers and so we have not provided detailed comments. Considering the inherently different nature of the micro-business market (with far greater diversity of metering and customer types) we do not believe that meaningful statistics could be provided.

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

The non-domestic sector, including the micro-business sector, is very different to the domestic market:

- The non-domestic sector encompasses a wide range of metering equipment ranging from larger versions of domestic metering to very complex metering installations for industrial sites.
- Obligations in the domestic market are limited, in that suppliers are obliged to rollout smart metering across their whole portfolio of customers and use the central DCC; in the non-domestic sector more choices are available.
- The non-domestic sector has been at the forefront of introducing advanced metering at our customer's sites. Whilst the rollout of smart metering has been beset with rollout delays the non-domestic market has through the competitive metering and AMR market rolled out 100's of thousands of advanced metering solutions<sup>3</sup>. The non-domestic micro-business sector will therefore contain a mix of advanced & smart meters.

<sup>2</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/simplification\\_plan\\_2015-16\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/simplification_plan_2015-16_0.pdf)

<sup>3</sup> DECC data on the current state of the industry rollout is collected only from large domestic suppliers, not from ICoSS members, and significantly understates the level of market penetration of AMR meters in the non-domestic gas market. From information provided to

- Advanced Metering utilises pre-existing metering technologies and generally works by recording “pulses” generated by the meter to determine flow and hence consumption. Also, micro-business market customers will on occasion have larger meters which require specific asset data such as number of dials and multiplication factor to enable the correct calculation of the energy associated with the meter read. Thus even if the read is correct but the asset data is wrong (supplied by the meter asset provider) the billed consumption may be erroneous.
- Micro-business market customers (or their landlords) can and do procure AMR services directly and thus control the provision of the service. In such circumstances the accuracy of the meter reading sits within the consumer’s control, not the suppliers.
- Micro-businesses are run for profit and as such should not be subject to being considered vulnerable in the same way that domestic consumers may be. Not back-billing a micro-business gives such organisations a commercial advantage over its rivals, rather than potentially placing a domestic customer into a debt situation.
- Comparable obligations for micro-business customers (such as tax liabilities, etc) are not subject to the same restrictions and is instead a blanked waiver on charges, instead the situation of the micro-business is taken into account when determining repayment.
- Suppliers are under no obligation to offer terms to micro-business customers and so may refuse supply if they perceive any potential issues regarding back-billing.

Taken together we believe it is inappropriate that a blanket restriction on back-billing is imposed on the micro-business market. To do so, unlike in the domestic sector, will give some business customers an unfair advantage over their rivals and will restrict the market for certain micro-business customers, with intermittent communications or with AMR meters, as they will be seen as riskier. To avoid these substantial negative impacts on this market, the current industry framework should be relied upon.

### Chapter 3

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

ICoSS does not agree with any form of limitation that goes beyond current industry arrangements. This view notwithstanding we disagree with the six month limit as it does not align with current industry standards. At present AMR devices that derive the read i.e. derive the read from a sum of consumption will be subject to potential

ICoSS by its members it is estimated that over 100,000 AMR installations are in place in microbusiness and SME customers in the gas market, representing 20% of the market.

drift in the read calculation. Currently this is managed by requiring checks read to be performed on a regular basis e.g. in the Gas market Suppliers are required to undertake an annual check read. This limit is considered proportionate for this established technology.

Introducing a 3 or 6 month limit would therefore require Suppliers to initiate more frequent physical check reads which goes against the principle of rolling out advanced meters to avoid customer disruption by removing the need for physical reads.

We note that this limit has no clear Cost Benefit Analysis will introduce additional costs to the market as Suppliers will need to hedge the risks associated with the introduction of such a limit e.g. physically reading meters with AMR in place every 3 or 6 months in excess of the annual check read proposed in the gas market, which will significantly increase market costs and fundamentally undermines the benefit of remote meter reading.

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

It is noted in appendix 2 (1.2) it is noted that no other jurisdiction has amended its back billing arrangements solely as a result of rolling out smart metering

Whilst we understand Ofgem's desire to deliver "additional" benefits to consumers on the back of the rollout of smart and advanced metering we believe it may be too early to make these policy changes and that it is more prudent to implement such changes on the basis of practical experience of the market operation of both new technologies and new service providers. From our experience of undertaking an AMR rollout over the last 10 years, many unexpected issues (such as difficulty in getting signal to customers, etc) will be encountered and so it is too early to consider implementing a policy that relies on smart metering for the following reasons:

- SMETS 2 metering, which is not readily available and as such has yet to be fully tested in the field or installed in any meaningful numbers.
- Pre-existing SMETS 1 metering generally defaults to dumb status on a change of supplier event and so cannot be taken to be a precursor to the full rollout.
- The DCC is not scheduled to Go Live until August 2016, at the earliest, and it will not be until after this date that the key industry infrastructure for sending and receiving reads will be proven.

On this basis the assumption that back-billing limits can be brought in, based on unproven technology, ahead of any short to medium terms experience of market operation seems unnecessarily risky and so this issue should be revisited when a substantial portion of the market is being supplied via smart meters.

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

Our comments above notwithstanding we believe that the proposed scope for when back-bills can be issued is too narrow. The scope needs to be expanded to cover the following:

- In our member's extensive experience through rolling out AMR devices, the most common reason that a read cannot be received from a site is due to an action by the customer, either through building work at the site or some other activity (such as parking vehicles near the meter or accidental damage). In most cases this is not a deliberate attempt to avoid payment, and so would not be covered by the theft exemption.
- The current scope does not take into account intermittent communication, which is a common problem for many small businesses are located, caused either by the site's location or the location of the meter. In many cases the cost of ensuring a stable signal is prohibitive (often running into thousands of pounds). To account for the longer timescales for calculating a correct consumption for these sites, the exemption from back-billing needs to be extended.
- There is no allowance for a third party failing in its obligations (such as the MAM) or the DCC. At present there is no mechanism for recovery of such costs from the DCC and in many cases smaller suppliers will be unable to recover costs from the third party who may be a competitor or a much larger entity and so hold market power. Such situations should also be excluded from scope.
- The technical issues that have been detailed above regarding deriving the read are also not suitably catered for.

If these circumstances are not taken into account customers that are covered by the above will either be visited on a regular basis (which undermines the very principle of smart metering), be required to move on a PAYG contract or will be refused supply.

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

No. There are several key impacts on smaller suppliers which have not been assessed. There will be a significant initial cost to suppliers as they seek to re-negotiate contracts with third party service providers and review their product offerings to customers with customers. Despite this necessary activity in many cases smaller suppliers will not find it cost efficient to recover any losses from the meter providers who may have caused the issue – in many cases owned by their competitors. This will mean that smaller micro-business suppliers, who do not have a large domestic portfolio to absorb costs, will see micro-business customers with smart portfolios as less attractive and seek either to include higher risk premiums, move such customers onto PAYG contracts or refuse to supply them.

#### Chapter 4

**Question 1:** Do you have any comments on our proposed approach to these



objectives (on change of supplier, billing frequency and Direct Debits)?

We have no comments on this.