



Smart Prepayment for a Smarter Market

Consultation Response

Introduction

OVO Energy ("OVO") entered the UK energy retail market in 2009 with the intention of offering a fairer, simpler and more competitively priced service to customers. We are now one of the UK's fastest growing independent suppliers, with over half a million customers and 900 staff. In January 2015 we also became Which?'s first and only Recommended Energy Provider.

Whilst continuing to champion the core values on which the business was founded, we are focusing increasingly on improving customer experience and engagement through technology and innovation. Our goal is to reach one million customers by 2017 and to be the most trusted energy company in the UK. In addition to being a domestic energy supplier, we are also a Meter Asset Provider (MAP).

OVO is fully committed to the smart meter roll-out. We see smart meters as a transformative technology that will help improve levels of trust. We have already installed smart meters for over 80,000 customers and, based on current installation rates, expect to have 100,000 smart-enabled customers by December 2015. Almost 1 in 5 of our customers will have a smart meter by the end of the year.

In particular, we are focusing on pre-payment meter (PPM) customers as, being the most underserved and overcharged part of the market, they stand to benefit the most from smart technology. In April 2015 we launched Smart PAYG+, the UK's first full service PPM platform which enables customers to manage all elements of their supply, from topping up, to monitoring usage on one simple application anytime, anywhere. This gives PPM customers, for the first time, access to comparable service quality and usage visibility as standard credit customers. Since the launch, our tariff has also been the cheapest PPM tariff in the market.

This move is in line with the Competition and Markets Authority's provisional recommendation that "energy firms prioritise the roll-out of smart meters to domestic customers who currently have a prepayment meter". Since the launch of Smart PAYG+ we have grown our PPM business from 30,000 to 75,000 customers, with 30% of these customers already smart enabled.

However, millions of PPM customers are still being overcharged and underserved because the rest of the industry has ignored this part of the market to date. Having said that, since the launch of our Smart PAYG+ this year we have seen some suppliers launch similar products targeted at PPM customers. For this reason, we broadly welcome Ofgem's proposals, which will ensure the regulatory framework properly protects this part of the market as the industry starts to bring forward smart PPM solutions.

Responses to Questions

CHAPTER 2

Question 1: Do you agree with our assessment of the Change of Supplier solution as developed by industry, including in terms of its potential unintended consequences and its applicability to all smart meters irrespective of consumer type (domestic and non-domestic)? If not, please:

- **explain why**
- **put forward suggested alternative(s) to this solution**
- **if relevant, suggest and explain any other action we should take**

We agree with the proposal to switch meters to credit mode on loss. This will ensure a consistent customer experience if communication with the smart meter is lost when switching. We would suggest devising an agreed method of calculating and claiming unpaid usage for the period of time that the meter is in credit mode.

If communication with the meter is lost before it's switched to credit mode there will need to be a process in place to identify and reconcile the misdirected payments between suppliers.

Finally, there will need to be an agreed method and timeframe for switching back to PPM mode after the switch to credit, if the gaining supplier has the technology to this. If a meter cannot be switched to PPM, we would suggest suppliers will need to identify smart PPM meters in credit mode within 5 days of SSD. After this point, suppliers will need to agree an alternative payment method with customer - be that through a meter exchange or a Direct Debit set up. However, before this process is mandated, SMETS1 interoperability needs to be addressed and resolved.

Question 2: Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting? If not, please:

- **explain why**
- **suggest and explain any alternative(s)**

We agree that it is necessary to monitor supplier arrangements for smart PPM functionality through SOR, and believe this is a more appropriate solution than mandating certain functionalities. This will ensure continuous innovation in the PPM market.

Question 3: Do you agree with our proposed data points for inclusion in the SOR (on the availability of key smart prepayment functionalities), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- **explain why**
- **suggest and explain any alternative(s)**

(Also see appendix 3 for detail on proposed changes)

We agree with the proposed data points for inclusion and the frequency with which to collect them. Should a more specific breakdown be required of those data points by location or customer type, as much notice as possible should be given to changes in SOR reporting.

Question 4: Do you agree with our assessment on those areas where we do not propose to take any further action. If not, please:

- **explain why**
- **suggest and explain any action we should take**

We agree that the effort to update meter location data would be disproportionate to the benefit gained. OVO assesses the suitability of location by questioning customers at the point of booking.

We agree that suppliers should be able to innovate in the area of self-disconnection to better service PPM customers. OVO's Smart PAYG+ provides various safeguards including the ability to set auto top up, 24 hour self-disconnection notices, and text alerts when credit is down to a certain level.

Regarding customer communication, it is important for a party to regulate guides for different meter types. There is a concern that using Smart PAYG+ will not be consistent and it will be difficult for gaining suppliers to manage variations of communications. We would suggest setting up a central store of all smart meter guides to simplify the process for both suppliers and customers.

CHAPTER 3

Question 5: Do you agree with our assessment that the existing regulatory arrangements are fit-for-purpose for a smarter market, and that they pose no undue barrier to innovation? If not, please:

- **explain why**
- **suggest and explain any action we should take**

We are concerned at the lack of direction on what suppliers are obligated to do in the SMETS2 world, such as which NSPs suppliers have relationships with. Further clarity on this would be helpful.

We are supportive of Ofgem's Code Governance Review and have submitted a response to this consultation. We welcome all proposals that would seek to simplify the system of code governance across the industry, particularly those relating to smart. Our major concern with the current system of industry code governance is that it is incredibly complicated and this in turn acts as a barrier to entry for new entrants into the market or smaller independent suppliers such as OVO Energy.

We have also found that the four tariff rule limits our ability to offer tailored tariffs, particularly tariffs targeted at smart PPM customers. Having said that, we welcome Ofgem's move towards principles based regulation and look forward to further engagement as Ofgem develops it thinking on accommodating Non-Traditional Business Models.

Question 6: Do you agree with our proposal to update the Safe & Reasonably Practicable Guidance? If not, please:

- **explain why**
- **suggest and explain any alternative action we should consider.**

We do agree that it is beneficial to update the guidance. As smart metering offers customers a wider range of PPM options and benefits, it is clear that the current guidance is no longer fit for purpose in a smart PPM world. For example, customers don't have to necessarily be near a top up shop to be suitable for smart PPM. It is important that the guidance that allows suppliers to be in alignment with each other also allows for competition, innovation, and the opportunity to support customers better. By broadening the scope of the guidance, suppliers will be able to do this.

Question 7: Do you agree with our proposed amendments to the Safe & Reasonably Practicable Guidance? If not, please:

- **explain why**
- **suggest and explain any alternative amendments we should consider.**

(Also see appendix 4 for detail on proposed changes)

Yes, we do agree to the guidance update as suggested. It will allow suppliers to offer a wider range of payment methods to customers and therefore will help support vulnerable customers (both financial and otherwise)

We have found that the vast majority of our smart PPM base actively request the online top up payment method over traditional cash payments. The suggested updates to the guidance support both our innovations and the customer's requirements

Question 8: Do you agree with our proposal to monitor, through our Social Obligations Reporting, the number of smart prepayment consumers who have actively asked for alternative top-up methods so as not to require cash as a payment option? If not, please:

- **explain why**
- **suggest and explain any alternative amendments we should consider.**

We agree that it is necessary and beneficial to record this information as it will allow regulators and suppliers to understand changing trends in the supplier-PPM customer relationship. It will highlight what types of payment methods customers are choosing and then this can be used to change supplier regulations so that they are able to support customers better.

As SOR is already an extensive report that requires a lot of resource from suppliers to complete, it is important for Ofgem to understand that if this is the right arena to record this data, it should be done so in a way that is not cumbersome to suppliers. It is also worth noting that if this is to be included in SOR, suppliers will need a notice period before it is requested i.e. if it is to be included annually in SOR, suppliers will need a 1 year notice.

Question 9: Do you agree with our proposed data points for inclusion in the SOR (on cash as a payment option and smart meter consumers on prepayment), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please:

- **explain why**
- **suggest and explain any alternative(s)**

(Also see appendix 3 for detail on proposed changes)

We agree that these are positive changes to the SOR as stated in the previous answer. The timescale of Jan 2017 to start reporting on this for the 2016 year period is a good idea, as long as the changes are rolled out to suppliers by the end of 2015 so they are able to start collecting data correctly for the reporting period.

Question 10: Please provide any views on the risks and merits of differentials between smart and traditional prepayment tariffs. Please also provide views on mitigating actions that could be taken by parties, including by Ofgem, to address any perceived risks.

Whilst we can't guarantee every customer can have a smart meter, we wouldn't want to unfairly increase the costs for these customers.

CHAPTER 4

Question 11: Do you agree with our proposed approach to micro-businesses? If not, please:

- **explain why**
- **provide any evidence to support your position**
- **provide details on which existing arrangements we should consider extending to micro-business consumers, and why**

We have no view on this at the moment but want the option to innovate in the future so would therefore agree with Ofgem's proposed approach of taking no action at the moment until there appears to be a higher demand for smart PPM in the micro-business market.