

Bart Schoonbaert,
Senior Manager, Consumers & Sustainability
Ofgem
9 Millbank
London
SW1P 3GE

7 October 2015

Dear Bart,

Smart billing for a smarter market: our proposals

Thank you for the opportunity to respond to the above consultation.

We support Ofgem's objective of minimising backbills and the frequency of estimated bills. As a signatory to Energy UK's Billing Code, we voluntarily reduced our own back billing window to 12 months. In the light of this we consider ourselves to be in a good position to understand what is realistically achievable here, and with the mass rollout of smart meters expected to transform the collection of consumption data, we share Ofgem's ambition for the back billing window to be reduced further for customers with smart meters.

Our response to the consultation questions is in Annex 1. Our main points are as follows:

- We would caution that the objectives underlying the proposed backbill limit can only be realised if the DCC is able to maintain a level of service commensurate with that ambition.
- We agree that the backbill limit should apply to consumption that took place on the smart meter only, and not to consumption on the traditional meter prior to the installation of the smart meter.
- Instead of requiring that suppliers may not *issue bills* for previously unbilled consumption, the rule should state that suppliers may not *require payment* for previously unbilled consumption; this would allow suppliers to include details of any consumption that had not been charged for in the bill or statement of account.
- Greater clarity is required in the way that the backbill limit would apply to direct debit reassessments. At present it is unclear how much (if any) revenue a supplier would be expected to forego if it is late in carrying out a reassessment.
- We think there should be a grace period around the six month rule to reflect the fact that billing cycles and direct debit re-assessments may not fit precisely with six month intervals. A grace period of 30 days would assist here.

I should also add that we are proceeding on the basis that an invoice for information, of the type issued to direct debit customers, counts as a bill for the purpose of indicating whether a sum of money has been billed. If the definition was restricted to a demand for payment, it is possible that (depending on the pattern of consumption and the timing of any reassessments) such a demand would not be issued in the six month period.

Should you wish to discuss any aspect of this response please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a horizontal line.

Rupert Steele
Director of Regulation

**SMART BILLING FOR A SMARTER MARKET: OUR PROPOSALS -
SCOTTISHPOWER RESPONSE**

Chapter 2: Proposed approach to estimated bills and backbills

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.

We agree that there is a minor risk that the back office transition to smart meter systems could lead to failures to appropriately manage smart meter readings, resulting in estimated bills.

However, the main system development is likely to be in the operation of smart meters themselves, rather than in the billing systems. In our view, the risk of estimates is likely to be greater from communications failures, where the WAN might be unavailable for a protracted period. Nonetheless, the very presence of the smart meter should mean that the supplier is able to base the estimate on contemporary consumption history.

Therefore, whilst we agree that every effort should be made to ensure timely and accurate billing, we think estimation can still play an important role as an interim measure to help keep customers informed.

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

Yes, we think this measure satisfies the requirements identified in our response to Question 1. By maintaining the emphasis on 'interim', a time-limit approach should appropriately incentivise the supplier to resolve the communications failure quickly. However, as responsibility for the resolution of communications failures will fall mainly to the relevant Communications Service Provider (CSP), SLAs will be needed to align with these ambitions.

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

Yes, as only a handful of suppliers have signed up to the voluntary code, we think a licence obligation is the best approach in the circumstances.

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

While we broadly agree that performance measurement is a valuable tool, it will be important to get the metrics right. A supplier might have a concentration of customers in a geographical area particularly badly affected by WAN failures. In such circumstances, it would be reasonable to expect a greater proportion of estimated bills from that supplier. The performance metrics should, therefore, incorporate some mapping to WAN availability through the same period.

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

In our view, microbusiness customers will typically share more characteristics with domestic customers than with larger non-domestic customers. We therefore think it is right that the backbill time limit should apply to domestic and microbusiness customers with smart meters.

Chapter 3: Practical considerations for a smart backbill limit

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

Yes. Among signatories to the voluntary Energy UK Billing Code, efforts to date have already reduced back billing limits to 12 months. Having achieved this milestone for customers with traditional metering, we see no reason why the more ambitious six-month limit cannot be achieved for customers with smart meters, though we suggest that a 30 day grace period is also provided to reflect the fact that the interval between direct debit reassessments may not be precisely 6 months (and that quarterly bills may not be precisely quarterly).

We would welcome a subsequent review of this limit once the smart meter arrangements and system developments have bedded in. If such a review is left until 2020, we think suppliers will have had plenty of time for such bedding in to have taken place.

We agree that the backbill limit should apply to consumption that took place on the smart meter only, and not to consumption on the traditional meter prior to the installation of the smart meter.

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

Yes, we agree that these timescales afford a reasonable window in which to implement any necessary changes.

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

'Issue bills' versus 'require payment'

Ofgem proposes to formulate the backbilling rule to require that suppliers 'may not issue bills for previously unbilled consumption that took place more than six months prior to the issuance, where the customer was not at fault.'¹ If a supplier has to waive its charges for any consumption as a result of the backbilling rule, it will be desirable, for reasons of transparency, for the supplier to give details of the calculations, including the consumption that has not been charged for, in any bill or statement of account. We therefore believe this would be better formulated as a rule that suppliers may not *require payment* for previously unbilled consumption. (An alternative formulation would be to require that suppliers may not *charge* for previously unbilled consumption. However, as explained below, we do not believe this would be appropriate for customers who pay by direct debit or who pay in advance of the bill according to an agreed payment plan.)

¹ Condoc Appendix 4, para 1.2, page 37

Direct debit

Ofgem says it is mindful of potential unintended consequences that the proposed backbill limit could have on the direct debit payment method, and understands that a six-month limit would enable current practices to continue unchanged, whereby fixed Direct Debit payments are generally reassessed every six months.² We have a number of concerns about Ofgem's proposals.

- a) The proposed formulation of the obligation for direct debit reassessments does not provide sufficient clarity as to how it would be applied in practice. Ofgem suggests that a supplier '*may not set a customer's payments in order to recover charges for previously uncharged consumption that took place more than six months prior to the calculation*'.³ In the case of credit customers, if a supplier allows 7 months to elapse between issuing bills, the consequence seems clear: the supplier would be unable to bill for any consumption which took place in the first of those 7 months. However, if a supplier allows 7 months to elapse between direct debit reassessments, it is unclear how much (if any) revenue it would be expected to forego. One interpretation would be that the supplier must forego the revenue from any consumption in that first month over and above the consumption implicit in the previous direct debit level – but that would require suppliers to have knowledge of the monthly consumption profile when they set direct debit amounts, which they would have no reason to do at present.
- b) Although current practice is to reassess direct debit payments every 6 months, there is no obligation to do such assessments precisely 6 months apart. For operational reasons it may be desirable to smear out peaks of activity, and from time to time mailings may be delayed as a result of system issues. It is possible therefore that under current arrangements successive direct debit reassessments could sometimes be, say, 7 months apart. As noted above, it is unclear how the obligation would be defined for direct debit reassessment, but if a supplier runs the risk that it will be required to forego revenue in such circumstances, it may need to increase the frequency of direct debit reassessments to mitigate this risk - with a consequent increase in operational costs. We would therefore suggest that the obligation is specified in a way which accommodates a grace period of up to 30 days on the 6 month interval between reassessments.
- c) ScottishPower gives its direct customers the flexibility to adjust (within a defined range) their monthly direct debit amount. If a direct debit reassessment is in breach of the new backbilling limit as a result of a customer exercising this choice (ie, where it would not have been in breach had the customer taken no action), we believe this should be treated as an example of 'customer fault' and Ofgem's guidance should be modified accordingly. Alternatively, suppliers may feel they need to reduce or withdraw this flexibility, which would be unwelcome to customers.
- d) Finally, we are concerned at the suggestion that in the case of direct debit customers, suppliers may be subject to both the limit on direct debit reassessments discussed above and the generic limit on billing. Ofgem says '*the application of the rule to customers on regular Direct Debits would mean that – in addition to the generic restriction on billing – the supplier may not set a customer's payments in order to recover charges for previously uncharged consumption that took place more*

² Condoc para 3.21, page 26

³ Condoc Appendix 4, para 1.5, page 37

*than six months prior to the calculation*⁴. The equivalent of a bill for direct debit customers is the statement of account, which is typically issued twice per year. If suppliers were unable to charge for consumption that occurred more than 6 months before the date of the statement of account, then unless there was a grace period they would need to issue statements of account to direct debit customers at least every ~5 months (to allow some tolerance for operational delays and for any lag between obtaining the final meter reading and issuing the statement). This is likely to involve additional cost and is unlikely to be welcomed by customers. We think that the backbilling rule for direct debit should be expressed in terms of either the reassessment or the bill, but not both. If it is expressed in terms of the reassessment, the details of the obligation need to be clarified as noted in (a) above. If it expressed in terms of the bill, it should be a rule that suppliers may not *require payment* for previously unbilled consumption, so that payments which have already been made are not caught by the obligation.

Customers on payment plans

A small proportion of ScottishPower's customers are on 'weekly' and 'monthly credit' payment plans, whereby the customer makes payments of a fixed amount on a weekly or monthly basis. These customers typically receive a quarterly bill or statement of account which includes a reassessment (where necessary) of the fixed weekly or monthly payment amount. (In the case of monthly credit, customers also receive a 'monthly statement' which is effectively a reminder to pay their fixed instalment.) The situation of these customers is similar to direct debit, in that any failure to use sufficiently up to date meter readings is likely to impact the customer via the reassessment. As with direct debit, the backbilling rule should state that suppliers may not *require payment* for previously unbilled consumption, so that payments which have already been made are not caught by the obligation.

Customers on prepayment meters

Ofgem says that the rule would also extend to customers with smart meters configured in prepayment mode, to capture for example, instances where a meter has been configured with the wrong tariff and the customer has consequently underpaid for their energy, or where a customer switches from credit to prepayment mode, and a backbill relating to the credit mode is subsequently applied to the prepayment meter. Whilst we would support the application of the limit in the two examples given, we would note that prepayment customers are typically issued with bills on an annual cycle, and the rule for prepayment smart meters will need to be drafted with this in mind to avoid any unintended consequences.

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

See our response to Question 3 above.

Chapter 4: Proposed approach on CoS, billing frequency & Direct Debits

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 at this time.

⁴ Condoc Appendix 4, para 1.5, page 37