

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

2 November 2015

Dear Bart,

**Consultation on Smart prepayment for a smarter market.**

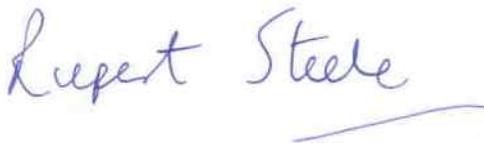
Thank you for the opportunity to respond to this consultation. Our answers to the consultation questions are in Annex 1.

We welcome Ofgem's proposals in this area, and are encouraged by its support for the work industry has already undertaken in developing the smart prepayment solution.

We also very much welcome the recognition of prepayment as an area that affords little room for error. We remain fully committed to getting our rollout of smart meters right, first time, and we understand the importance of being able to demonstrate the operational robustness of smart prepayment technologies, particularly before they are deployed to some of our most vulnerable customers.

Should you wish to discuss any aspect of this response please do not hesitate to contact me or David Ross Scott ([DavidRoss.Scott@ScottishPower.com](mailto:DavidRoss.Scott@ScottishPower.com)).

Yours sincerely,



**Rupert Steele**  
Director of Regulation

**CONSULTATION ON SMART PREPAYMENT FOR A SMARTER MARKET –  
SCOTTISHPOWER RESPONSE**

**Chapter 2: New arrangements**

**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**

Yes. We supported the industry initiative in this area, whereby the losing supplier would revert any relevant smart meter from prepayment to credit mode on CoS.

The gaining supplier will have agreed a particular tariff and payment method with the customer in advance of the switch. It should be fairly straightforward for the gaining supplier to reconfigure the smart meter to a prepayment mode where required. While we recognise there is a risk of the consumer building up debt in the interim, we do not expect this risk to be material and would expect that consumers will be protected against detriment by the licence obligation to treat customers fairly.

We would note that we support a proposed process where the gaining supplier requests Unique Transaction Reference Numbers (UTRNs) from the losing supplier, which the gaining supplier then provides to the customer for manual entry. This approach could allow the supply to remain on while any issue is being 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)**

Yes, we agree with this approach.

**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)**

Yes, we think that the data points proposed for collection appear sensible and that the proposed collection timings are reasonable.

**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**

Ofgem is proposing not to take any further action on:

- recording meter location
- the 'perfect storm' scenario: no WAN and no access
- self-disconnections
- change of tenancy
- customer communications

We agree with Ofgem that there is no immediate requirement for action on these areas. We agree that the eight smart-specific scenarios and topics listed in Table 5 of the condoc, are all useful points for suppliers to consider as they develop their processes.

### **Chapter 3: Existing arrangements**

**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**

Yes, we agree that the existing prepayment regulations should continue to have effect with regard to smart meters operating in a prepayment mode. In our view, the current interpretation of these regulations should offer enough scope to allow the sort of innovative development that might make pay-as-you-go more popular as a lifestyle choice, whilst continuing to ensure that more vulnerable consumers remain protected.

The consultation asks about tariff differentials between smart and traditional prepayment meters, noting that suppliers will need to comply with SLC 22B and SLC27. In the short term we believe the main impact of smart prepayment meters will be to enable suppliers to offer prepayment variants of their non-standard core tariffs which (due to limitations in the current infrastructure) cannot be offered to traditional prepayment customers. Customers on traditional prepayment meters may therefore feel disadvantaged compared to those on smart prepayment meters who are able to access cheaper non-standard tariffs. If the CMA were to relax the current RMR tariff simplification rules (as has been suggested) this might give suppliers greater flexibility to mitigate any perceived disadvantage faced by traditional prepayment meter customers.

In the longer term, when smart meter rollout is largely complete, consideration will need to be given to whether it is appropriate to charge more to customers on traditional meters (e.g. where they have rejected a smart meter) to reflect the higher unit cost of the legacy infrastructure (see our response to Q10).

**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.**

Broadly, yes; however, we would emphasise the need for this to reflect reasonable practicability.

Given the ease of reverting a meter from PPM mode to credit mode, we think that it should not be necessary (unless there are reasons to suspect a safety issue) to visit the premises to confirm the position on “safe and reasonably practicable”. It should be sufficient to make reasonable efforts to establish contact and to provide the requisite notice. Otherwise a customer could delay the switch to prepayment by refusing entry and requiring the supplier to go through the warrant process.

**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)**

We broadly agree with the proposed amendments to the Safe & Reasonably Practicable Guidance, but would offer the following comments.

Where a customer expresses a fully-informed preference to top up via on-line or mobile technologies, we accept that the supplier is responsible for assessing the suitability of the product for the customer, having due regard to their individual circumstances. For that reason, we are not inclined to automatically view the temporary loss of top-up connectivity as sufficient to constitute a change of the customer’s circumstances for the purposes of SLC 28.1A.

While we think a supplier should make at least two such payment channels available to each customer (as well as cash), it is not beyond the bounds of possibility that such a customer may find themselves, temporarily, without ready access to either remote method. Therefore, provided the supplier takes all reasonable steps to ensure the continuity of supply, which might include access to emergency credit and or an emergency UTRN, we believe it will have discharged that part of its obligations.

**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 consider that this monitoring proposal is reasonable.

We understand that this is directed at the situation where it would not be safe and reasonably practicable for the customer to have a smart meter if it was necessary for them to pay by cash, principally because of the distance to the nearest suitably equipped shop.

If it is envisaged that there might be cases where cash cannot be offered for reasons other than reasonable practicality (e.g. resulting from the design of the tariff), this could be a rather different circumstance which would raise different consumer protection issues. It might be useful to consider whether this case should be reported separately.

**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)**

Ofgem is proposing to request information on:

- the number of smart meter customers using prepayment and credit mode on a **quarterly** basis, starting on 28 July 2016 (for quarter 2, 2016);
- the number of customers who have actively asked for alternative top-up methods so as not to require cash as a payment option on an **annual** basis, starting on 28 January 2017 (for the January-December 2016 period).

We think that the proposed frequencies and start dates are appropriate.

**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.**

Suppliers will typically smear the additional costs that arise from operating their prepayment infrastructure across all prepayment customers in their portfolios, and we think this approach is unlikely to change for the time being. In the medium term, the costs to operate smart prepayment might vary from those to operate traditional key-meter infrastructure; this might lead to suppliers considering reflecting some or all of this difference in the prices charged.

In practice, it seems unlikely that suppliers will want to move in this direction soon or extend this differential to a degree that causes social issues. Nonetheless, although not of immediate concern, this point does highlight an area that needs to be resolved fairly soon: i.e. the best approach to managing the residue of legacy metering. This includes a number of issues, including the likes of energy settlement and prepayment. In our view, this cannot be left to individual suppliers to resolve and, instead, requires an Ofgem-led industry initiative.

As noted in our response to Q5, the main difference in the near term is likely to be the different availability of non-standard tariffs to customers on traditional and smart prepayment meters.

#### **Chapter 4: Micro-businesses**

**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**

Ofgem is not proposing to extend any of the existing regulatory arrangements to micro-businesses. We agree that it would not be proportionate to do so, given the very low prevalence of prepayment meters amongst micro-businesses (and the absence of any evidence that this is likely to change).

#### **Chapter 5: The scope of our work**

**Question 12: Please provide any general views on phasing out the traditional prepayment infrastructure**

The traditional prepayment infrastructure needs to be viewed in the same context as the many other legacy systems and processes and their phasing out managed collectively. In our view, this cannot therefore be left to individual suppliers to resolve and, instead, requires an Ofgem-led industry initiative.

ScottishPower  
November 2015