



Making a positive difference  
for energy consumers

Electricity and gas suppliers,  
consumer groups and other  
interested parties

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### **Smart billing for a smarter market – our decision**

Billing is the main interaction between consumers and their supplier. We believe that customers should receive regular, accurate bills, and be shielded from the risk of significant back-bills – catch-up bills for historical charges – unless they are at fault. At present, suppliers' billing performance often falls short of expectations, and is the primary cause of consumer complaints. Smart meters will enable suppliers to significantly improve their billing performance. We want to ensure that consumers benefit from their investment in smart meters.

In August 2015 we consulted on a number of measures designed to help achieve the right outcomes for the billing of consumers with smart meters. We identified smart billing as a key focus area for our Consumer Empowerment and Protection programme, which is currently focusing on 'getting the basics right' in advance of the mass rollout of smart meters. Our consultation proposals were primarily focussed on time limits for the duration of back-bills generated from consumption on a smart meter.

We received seventeen responses to our consultation. We have carefully considered these responses, which helped to inform our decision on how best to proceed. We have considered the interactions with our wider thinking on the future of retail market regulation, and proposals from many industry respondents to voluntarily reduce their time limits for smart back-billing. We have also noted recently published research from Citizens Advice highlighting continuing concerns with supplier back-billing practices.

Through the Standards of Conduct, we can already take action against suppliers which fail to treat customers fairly, which includes suppliers' approaches to billing. We have decided to put in place additional measures designed to provide greater transparency for consumers on suppliers' smart meter back-billing commitments and, in doing so, promote informed choice and competition.

In this letter, we set out our decision on smart billing for domestic consumers and our next steps, including timescales. Appendix 1 sets out the questions we asked in the consultation, a summary of stakeholder responses and our views.

We are also today publishing a separate letter outlining our position on back-billing in the non-domestic sector.

## Introduction and background

Billing matters to consumers. It constitutes one of the most fundamental areas of interaction between them and their supplier. Historically, the highest level of consumer complaints relate to billing. In response to a super-complaint from the consumer body energywatch in 2005, we stated that from July 2007 all suppliers should set a 12-month limit on back-billing domestic customers, where the customer is not at fault<sup>1</sup>. EnergyUK responded by developing the Code of Practice for Accurate Bills (the "Billing Code"), which sets out how the arrangements for domestic customer back-billing work in practice. While five of the six largest suppliers are signatories to the Billing Code, all domestic suppliers apply the 12-month limit on back-billing, which is now an industry standard. The limit is also applied by the Ombudsman when making its decisions.

Smart meters enable suppliers to significantly improve their billing performance. We have previously identified billing as an area that suppliers need to get right from the early days of the smart meter rollout.<sup>2</sup> We want suppliers' performance in this area to match the service that consumers expect, and deserve, from their investment in smart metering technology. We therefore consulted on a number of measures to help achieve the right consumer outcomes for smart billing.<sup>3</sup>

Our analysis and consumer research led us to focus primarily on the related objectives of minimising back-bills and estimated bills. Back-bills can cause significant consumer detriment. Consumers consider key benefits to be the ability of smart meters to enable accurate rather than estimated bills, and hence to reduce the chance of "bill shock". Accurate bills are also important for consumer engagement in the energy market.

In relation to issuing bills based on actual meter readings, SLC 21B requires suppliers, among other things, to take all reasonable steps to obtain annual meter readings, and to make use of customer meter readings where considered accurate.

There are obligations relating to the provision of final bills in SLCs 27.17 and 27.18. Suppliers are required to take all reasonable steps to issue a final bill within six weeks of losing a customer and any corrected bills must be issued as quickly as possible.

The Standards of Conduct (SLC 25C) apply to all activities of a supplier in its dealings with domestic consumers, including billing. The Standards of Conduct requires suppliers to provide information to consumers that is complete, accurate and not misleading. The supplier must behave and carry out any actions towards consumers in a fair, honest, transparent, appropriate and professional manner.

We consider that estimated bills and back-bills will continue to be a risk with smart meters, particularly in the early stages of the rollout. Issues with systems and processes can make it harder for suppliers to base bills on smart meter readings. Industry stakeholders told us that realising the full potential of smart meters to bring consumers more accurate billing could be an incremental, time-intensive process. We will be looking to industry to proactively resolve any teething difficulties with smart metering infrastructure and implement effective back-up systems in order to meet customers' expectations.

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<sup>1</sup> Ofgem's response to the super-complaint on billing processes made by energywatch, July 2005, p.4. [www.ofgem.gov.uk/sites/default/files/docs/2005/07/11070-16305\\_0.pdf](http://www.ofgem.gov.uk/sites/default/files/docs/2005/07/11070-16305_0.pdf)

<sup>2</sup> Consumer Empowerment and Protection in Smarter Markets, updated work programme, September 2014: [www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets-updated-work-programme](http://www.ofgem.gov.uk/publications-and-updates/consumer-empowerment-and-protection-smarter-markets-updated-work-programme)

<sup>3</sup> Smart billing for a smarter market: our proposals, August 2015 <https://www.ofgem.gov.uk/publications-and-updates/smart-billing-smarter-market-our-proposals>

## Summary of our consultation proposals

In our consultation we set out two proposals to protect and empower consumers. Our first proposal was to introduce a measure that would give consumers a better minimum standard of protection from back-bills after they have a smart meter installed. Though our policy objective is to have no back-bills, we recognised that practical considerations would make an absolute restriction on back-billing unfeasible. We therefore proposed a time limit on the duration of back-bills for consumption that took place on a smart meter, to be implemented via suppliers' licence obligations. This back-bill limit would initially be six months, and would be reviewed in 2020 with the expectation of reducing it to three months.

Our second, complementary proposal was to encourage suppliers to publish their smart billing performance data, building on the existing publication of complaints data for domestic consumers. This would increase transparency in the market, enabling consumers to make decisions based on this key indicator of supplier performance. It would also strengthen incentives on suppliers to optimise their billing performance.

## Recent developments

### *Future of retail market regulation*

Since we published our smart billing consultation, we have progressed our thinking on our approach to regulating the retail energy markets. We believe that relying more on principles will better protect consumers, better enable innovation and place a greater onus on suppliers to understand and deliver what is right and fair for consumers. For now, we are focused on the domestic retail supply market, where there are lots of detailed rules and there is the biggest scope for change.

We are committed to striking the right balance between principles and prescriptive rules and sought views on how best to do this in our December 2015 consultation<sup>4</sup>. As a consequence of our latest thinking on this, we have also reviewed the appropriateness and desirability of prescriptive rules in our policy development, including our smart billing proposals.

### *EnergyUK smart billing commitments*

At present, five of the six largest suppliers are members of the EnergyUK Billing Code, and all six largest suppliers are signed up to the back-billing protections of the code<sup>5</sup>. As noted previously, the Billing Code sets a time limit of 12 months on back-billing for domestic customers.

In response to our consultation, EnergyUK signalled that its members were willing to implement billing commitments, for domestic customers with smart meters, in time for the start of the mass rollout. They proposed to set a limit of nine months on back-billing for customers with smart meters. They also indicated that all of the six largest suppliers, and some other independent suppliers, would implement the commitments.

Since our consultation closed, EnergyUK has indicated that their members will move to a six-month back-billing limit, subject to the necessary operational infrastructure being in place and stable, following DCC go-live. On current plans, this would mean the limit taking effect around the end of 2016. This would represent a significant improvement for consumers and mirrors the back-billing limit in our consultation proposal.

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<sup>4</sup> The future of retail market regulation consultation, December 2015  
<https://www.ofgem.gov.uk/publications-and-updates/future-retail-market-regulation>

<sup>5</sup> EnergyUK Code of Practice for Accurate Bills  
<http://www.energy-uk.org.uk/customers/energy-industry-codes/code-of-practice-for-accurate-bills.html>

## **Our decision on back-billing**

We have decided to protect consumers by putting in place measures to reduce their exposure to back-billing and to improve the transparency of suppliers' back-billing policies.

We have decided not to introduce a licence obligation on smart meter back-billing at this time. We note the commitment made by many suppliers via the EnergyUK Billing Code to move voluntarily to a six-month back-billing limit, and their intention to implement this as soon as practicable. Other suppliers who are not signatories to the Billing Code are at liberty either to sign up to the Code or to apply the back-billing limits to which the signatories have committed. Transparency of each supplier's commitments will inform and empower consumers, and drive competitive differentiation between suppliers. We will provide that transparency by publishing comparative information on our website of suppliers' smart back-billing time limits.

We will monitor the timeliness and effectiveness of these measures, to ensure that consumers receive fair treatment and benefit from their investment in smart meters. We have not ruled out taking further action if our monitoring shows that the voluntary measures have not achieved our desired outcomes.

In the longer term, our ambition remains for suppliers' policies around smart back-billing to tighten over time. In our consultation we set out our expectation that, by the completion of the smart meter rollout, it may be reasonable for back-billing to be limited to three months, for consumers with smart meters. This remains our view.

### *Reducing consumer exposure to back-billing*

Our objective is to ensure that consumers receive regular, accurate bills, and are shielded from the risk of running up significant back-bills, unless they are at fault.

In our consultation we set out our preferred policy option, to introduce a new supply licence obligation mandating a six-month back-billing limit for consumers with smart meters. In view of consultation responses, and our developing thinking on the future of retail market regulation, we have considered alternative options to deliver on our policy objective.

EnergyUK has signalled that its members are willing to move to a six-month back-billing limit for consumers with smart meters. We welcome this commitment, which is a step in the right direction and mirrors the back-billing limit that we included in our consultation last year.

While signatories to the Billing Code supply the majority of domestic consumers, there will be customers of other suppliers to whom the commitments do not apply. Other suppliers can also sign up to the Billing Code or apply the same smart back-billing limits, regardless of whether they are a member of EnergyUK. We encourage these suppliers to consider providing their consumers with protections equivalent to others in the market.

A critical part of finalising the smart billing commitments will be developing and agreeing how suppliers should treat customers in different back-billing scenarios. As we have seen from previous work to implement and review EnergyUK's Billing Code, the input of Citizens Advice and the experience of the Energy Ombudsman will be very important. They are well positioned to provide scenarios based on their experience of helping people to navigate the energy market. We understand that EnergyUK intends to make use of this expertise in the development of these arrangements.

## *Transparency*

We plan to monitor and publish domestic suppliers' back-billing policies.<sup>6</sup> This will help to provide consumers and other stakeholders with consistent, comprehensive and up-to-date information. We think it is important that consumers are aware of the commitments made by their energy suppliers in respect of smart meter back-billing. We therefore intend to publish suppliers' policies in summary form on our website, as we do with large suppliers' direct debit policies at present.<sup>7</sup> Suppliers should also consider how they might make their back-billing commitments transparent to their customers.

Responses to our consultation also broadly supported our plans to publish performance data in the domestic sector. Several respondents noted that we should take care to collect and present the data in a consistent format that enables valid comparison across suppliers. We will press ahead with our plans to publish billing performance data, focusing in particular on back-billing and estimated bills. We will engage with stakeholders to develop metrics and reporting procedures to enable us to do so.

### **Other issues**

When suppliers install smart meters, they take a final reading from the traditional meters they replace. This could reveal that the supplier has not billed the consumer recently using an actual reading from the traditional meters, and so trigger a back-bill. Suppliers already have to take all reasonable steps to obtain a meter reading for each of their customers at least once every year, and use these readings to bill their customers. It is important for suppliers to tackle this issue in advance to minimise the potential impact. Regular accurate billing can help suppliers to overcome concerns relating to acceptance of smart meters by removing any association with back-billing at meter exchange. We urge suppliers to consider what action they can take to mitigate this issue with a view to taking early action, and to consider how they will apply the existing back-billing rules for traditional meters in these circumstances. We intend to discuss this further with industry and other stakeholders.

### **Next steps**

We will formally request information from domestic suppliers about their back-billing policies this summer. We will publish these in summary form on our website later this year. We will also publish shortly the key findings of our latest information request on microbusiness back-billing. In parallel, we will consider what additional data to publish on supplier back-billing performance, through our work on supplier performance indicators for both domestic and microbusiness customers.

If you have comments or questions on any aspect of this letter, please get in touch at [consumerpolicy@ofgem.gov.uk](mailto:consumerpolicy@ofgem.gov.uk).

Yours sincerely,

**Neil Barnes**  
**Associate Partner,**  
**Consumers & Competition**

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<sup>6</sup> We will formally require domestic suppliers to submit information about their back-billing policies through our statutory information gathering powers. We will consider how this information will be kept up to date.

<sup>7</sup> Direct debits: what you need to know

<https://www.ofgem.gov.uk/publications-and-updates/direct-debits-what-you-need-know>

## **Appendix 1 – key themes from consultation and our views**

We received seventeen responses to our consultation. We have published the non-confidential responses on our website alongside the consultation document. Below we have set out the key stakeholder views by chapter, and our response.

### **Chapter two**

**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.

#### *Stakeholder views*

Stakeholders broadly agreed that estimates and back-bills will continue to arise in a smart meter future. Although the meters will enable regular communication with the supplier, technical and commercial issues will still arise. One particular risk that suppliers raised related to the availability of DCC services, which is outside of their control. However, respondents agreed that the frequency and duration of estimated bills and back-billing should reduce significantly.

#### *Our view*

We remain convinced that consumers with smart meters should benefit from more accurate bills, and that suppliers should tighten their practices with respect to back-billing.

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

#### *Stakeholder views*

We heard broad agreement on our rationale for a shorter back-bill limit for smart meters, at least in the longer term, and that improved industry capability should translate as higher minimum standard of protection for consumers. The industry challenged our suggested design of the back-bill rule, eg the timetable for implementation, and the scenarios for liability of different parties.

#### *Our view*

We remain of the view that it is appropriate for suppliers' policies on back-billing to reflect the capabilities of consumers' metering technologies. However, we are not convinced that a licence-backed time limit is the most effective or proportionate way for the industry to improve its performance at this time.

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

#### *Stakeholder views*

Stakeholders expressed mixed views on the best delivery mechanism of a limit. Some agreed with our proposed licence obligation, while others suggested that a voluntary approach, more in line with current arrangements, would be preferable.

### *Our view*

Our ambition remains for suppliers' policies around smart back-billing to tighten over time. However, we have decided not to introduce a licence obligation relating to smart back-billing for now. We have taken into account stakeholders' responses and consider that there is merit in the argument that a licence obligation could have negative consequences for the existing voluntary arrangements. We are looking for industry to step up to the challenge of more accurate bills, and shorter back-billing periods. Our view is that we can best achieve progress through a focus on transparency, together with an enhanced voluntary code for smart billing.

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

### *Stakeholder views*

Stakeholders broadly agreed with our proposal to publish supplier billing performance data. Suppliers noted that we should carefully consider how to ensure consistency between suppliers, who have different customer profiles, and smart meter rollout plans.

### *Our view*

We will press ahead with our plans to publish billing performance data, and continue to engage with stakeholders in developing metrics and reporting procedures. In doing so, we will seek to maximise the usefulness of the data and minimise the burden on suppliers.

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

### *Stakeholder views*

Most respondents, including suppliers and consumer advocates, supported back-billing protections for microbusiness consumers. Many saw microbusiness consumers as having similar characteristics to domestic consumers, and therefore requiring similar protections. Like domestic consumers, Citizens Advice pointed to their research which shows that microbusiness consumers see billing accuracy as a key benefit of the smart meter rollout.

Some stakeholders felt that microbusiness customers do not require the same protections as domestic consumers. One industry representative felt that microbusinesses do not have the same vulnerability considerations as domestic consumers, and added that writing off back-bill debt would impact on costs to the suppliers' other customers. Another added that some non-domestic suppliers currently back-bill customers for up to four years, and a move to a six-month limit alongside domestic suppliers would be too steep and impact disproportionately on small suppliers.

### *Our view*

We are publishing a separate letter outlining our position on non-domestic back-billing.

## Chapter three

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

### *Stakeholder views*

Stakeholders generally told us that they were supportive of a move to more timely and accurate billing. However, many suppliers in particular expressed concern that six months was too short to enable accurate billing if unexpected errors occur with automated systems. At least one stakeholder felt the back-billing limit should be more ambitious. Others noted that DCC systems would need time to bed down and prove their reliability before suppliers can reasonably be held to a six-month back-bill limit.

### *Our view*

We note that signatories to the Billing Code are committed to moving towards a six-month back-bill limit.

We will publish a summary of suppliers' back-billing policies on our website. Suppliers should also consider how they might make their back-billing commitments transparent to their customers.

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

### *Stakeholder views*

Consumer advocacy groups supported our proposed implementation timescales as a minimum. However, most suppliers felt that they needed more time to implement system changes, and wanted to wait until DCC services were live and proven to be stable and reliable. Several suppliers suggested implementing the measure twelve months after DCC go-live.

### *Our view*

We share the view that consumers should benefit from improved protections as soon as possible. We note EnergyUK's proposal for the smart back-billing commitments to come into effect around six months after DCC go-live. We will publish a summary of all domestic supplier back-billing policies later this year.

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

### *Stakeholder views*

Stakeholders expressed a range of views about who should be accountable for inaccurate and untimely billing. Citizens Advice called for clearer guidance on instances where the customer can be seen as 'at fault' and therefore outside the scope of the smart billing protections. Some industry respondents felt that we needed an additional category of exclusions where neither the consumer nor the supplier is at fault. Of the suggestions, the one raised by most relates to DCC availability, but others suggested exclusions including customer refusal to pay, revenue protection activities, inaccurate meters and fixed direct debit issues.

Citizens Advice suggested that consumers with SMETS1 meters operating in 'dumb' mode should receive the same protections through other means. Others disagreed, arguing that these should be outside the scope of the smart billing protections, as these meters essentially operate in the same way as traditional meters.



### *Our view*

It is important that suppliers' back-billing policies are transparent and simple. Consumers should have a clear understanding of how the back-billing limits will apply to their individual circumstances. Unless the consumer has obstructed the process, we think that they should be entitled to the same protections regardless of whether the fault is with the supplier or another industry party. We remain of the view that a supplier should only consider a customer to be at fault if they have behaved unlawfully, or failed to provide access to the meter or other necessary details to enable billing. We note that EnergyUK intends to make use of the expertise of Citizens Advice and the Energy Ombudsman in developing and agreeing how suppliers should treat customers in different back-billing scenarios.

**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?

In general, suppliers felt that the systems changes required to implement the back-billing arrangements could be complex and costly, and some suggested that we should conduct an assessment of their costs and benefits. They noted that using two different back-billing limits for smart and traditional meters would create additional complexity and cost. They also noted that cost and complexity could vary according to supplier size, customer type (including proportion of prepayment meter customers) and the nature of their current systems. Finally, several suppliers expressed concern and uncertainty about the impact of writing off customer debt due to the new back-billing rules.

### *Our view*

As we've set out in this decision letter, we have noted EnergyUK's commitment to move to a six-month back-bill limit. In this context, we have decided to put in place measures to provide greater transparency for consumers on suppliers' smart meter back-billing commitments.

Regardless of whether suppliers' changes are driven by voluntary changes or licence requirements, we do not consider that a new smart back-billing limit would lead suppliers to incur significant costs. The smart meter technology that will enable greater billing performance is already being put in place. A limit would not entail a fundamental change to suppliers' core processes, which we understand can be a key driver of implementation costs. This is because suppliers' billing systems should already be geared towards achieving maximum billing accuracy, with processes in place to deal with errors and exceptions. To the extent that there are implementation costs or lost revenues, it is reasonable to improve performance in this critical area due to the benefits for consumers and suppliers.