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Dear Bart

**British Gas' response to Ofgem consultation on 'Smart billing for a smarter market: our proposals'**

Please find attached the British Gas response to the Ofgem consultation on 'Smart billing for a smarter market: our proposals', published on 6 August 2015.

I trust that you will find our response useful as you consider how to take forward your work in this area.

Please do not hesitate to contact Tony Herbert ([tony.herbert@britishgas.co.uk](mailto:tony.herbert@britishgas.co.uk)) on 07979 569762 if you would find it useful to discuss any part of our response.

Yours sincerely



Nigel Howard  
Head of Consumer Regulation  
**British Gas**

## Executive Summary

- British Gas shares Ofgem’s aim of ensuring customers receive accurate bills. We recognise the imperative to do so for customers with smart meters is even stronger, and that customers are right to expect greater accuracy in billing, and timely resolution of inaccuracies, once a smart meter has been installed and set up correctly.
- Suppliers already have strong incentives to deliver a positive smart meter customer experience. British Gas is already providing accurate bills to customers with smart meters – for domestic customers 97.1% of smart bills issued this year were billed to accurate reads.
- While we fully endorse Ofgem’s overall objective on smart billing, we do not believe the proposals represent the most appropriate method to achieve this for domestic or microbusiness customers, at least not at this time or with the amount of evidence available. In particular:
  - the available evidence fails to demonstrate a cause for concern around smart billing that warrants intervention;
  - If Ofgem decides further regulatory intervention is required, this should align with its proposed shift towards principles-based regulation. At this early stage of the principles-based debate, the bar for prescriptive intervention should be set higher, and proposing to do so in this case requires a robust and well-reasoned justification; and
  - Of most concern, the proposals fail to take account of fundamental changes to the smart meter infrastructure and the reliance which suppliers will have on this to deliver accurate bills. If Ofgem proceeds with its proposed approach we would ask for longer timeframes to factor in this dependency and also to allow sufficient time for system changes and testing. Our recommendation would be that implementation should occur no earlier than such time as the Data Communications Company (DCC) has launched and there is a track-record of its operation and performance.
- We agree with Ofgem’s proposal for suppliers to publish their smart billing performance data. We think such information may prove useful to customers when making switching decisions; for this to be the case it is essential the data is consistently reported. We would be happy to work with Ofgem and others on the methodology.

These views are set out in more detail below in our answers to the questions posed in the Ofgem consultation document.

## CHAPTER: Two

**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.**

1. British Gas agrees with Ofgem that significantly improved billing performance is a key benefit of smart meters. We have installed more than 2m smart meters in domestic and business premises, taking the lead in rolling out gas and electricity smart meters to give our customers greater levels of control and insight into their energy usage.
2. Suppliers have strong incentives to deliver a positive smart meter customer experience. We need to deliver the benefits of smart meters and to make our smart offering an attractive proposition so customers will actively choose smart meters. A key element of this is delivering improvements to billing. Our performance shows that we are already making great strides: for our domestic customers 97.1% of smart bills issued this year were billed to accurate reads.
3. In its consultation document, Ofgem suggests that “*there is also emerging evidence of consumers with smart meters making complaints about being billed on estimates*”. Customers rightly expect to receive accurate bills having been informed that smart meters mean an end to estimated billing. Our experience is that delivering on this expectation leads to increased levels of satisfaction and lower levels of complaints. While billing queries

account for the majority of standard meter customer queries, complaint volumes from our domestic smart meter customers are 20% lower and customer satisfaction is higher.<sup>1</sup>

4. Based on our extensive experience in delivering accurate billing and having reviewed the evidence put forward, we are surprised at the approach taken by Ofgem. Rather than taking pre-emptive action where there is as yet no evidence of consumer detriment, we consider that Ofgem should seek to reflect the principles of Better Regulation and introduce new rules only where there is a clear and demonstrable need. Such intervention should be proportionate to the problem, based on evidence, and focussed on driving competition, as well as protecting consumers. Elsewhere in its approach to the Consumer Empowerment and Protection programme Ofgem has adopted an approach which allows the market to develop and respond to customer needs before considering whether intervention is required. We suggest that smart billing should follow this precedent. As stated above, there are clear market-based incentives for suppliers to provide accurate bills and there is no evidence of the market having failed to deliver this outcome for customers with smart meters.
5. If a market-based solution, which seeks to harness competitive pressures, fails to deliver for customers then it is clearly right that the range of possible solutions, including principles and prescription, should be considered. We discuss the principles-based approach in more detail in our answer to Question 3 below.

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

6. Ofgem's proposals are intended to tackle backbills by introducing a 6 month backbilling limit. Ofgem also suggests that this approach will indirectly tackle usage of estimates. As we make clear in our answer to Question 1 above, we question whether Ofgem's proposed approach is warranted. However, if Ofgem presses ahead with its proposals, we agree that a time limit on smart backbills would mitigate the perceived risk of backbills and estimates.
7. In introducing a time limit on smart backbills, Ofgem should ensure that it does not unfairly penalise suppliers because their inability to bill is not their fault or the fault of the customer. In particular, Ofgem's proposals fail to take account of fundamental changes to the smart meter infrastructure – notably the launch of the DCC – and the reliance which suppliers will have on the DCC in order to deliver accurate bills to customers with smart meters. In this context, it is not reasonable to make suppliers responsible for something which is contingent on something outside of their control. We would expect Ofgem to reflect this in the drafting of any licence obligation and also to give consideration to delaying the implementation of any intervention until DCC has launched and its performance has stabilised.

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

8. We have concerns with Ofgem's proposal to implement a backbilling limit via a prescriptive licence condition. These are grouped into two broad areas which are discussed in turn below:
  - a. Alignment with Ofgem's proposed shift towards principles-based regulation; and
  - b. Potential impact on Energy UK Billing Code.

**Alignment with Ofgem's proposed shift towards principles-based regulation**

9. Instead of introducing a prescriptive backbilling limit into suppliers' licences, we consider that Ofgem's work on smart billing should be aligned with Ofgem's wider approach to regulation, where it has publicly expressed a desire to rely more on principles and less on prescriptive rules over time. Given this stated direction of travel and the early stage of Smart Meter rollout, we believe that the debate about smart billing protections should take place as part of a wider review of Ofgem's future regulatory approach rather than precede it. As part of its early engagement with industry and other stakeholders, Ofgem has previously sought

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<sup>1</sup> Satisfaction with British Gas is 25 points higher on the NPS scale for smart meter customers than conventional (-13 vs. +12. Source: Brand NPS Feb 2015)

stakeholders' views on different delivery models to achieve smart billing objectives. We were therefore surprised the consultation devoted little time to the potential merits of a principles-based approach.

10. We recognise that the transition to a principles-based approach may not be immediate, and there are likely to remain areas where prescription is merited. However, while we are in a transitional phase we consider that the bar for prescriptive intervention should be set higher. In particular, we believe that Ofgem should clearly state why it considers that relying on principles is insufficient for a particular area and justify any preference for prescription.

#### **Potential impact on Energy UK Billing Code**

11. Ofgem notes that suppliers have raised concerns that placing a backbill limit in licence would potentially have adverse knock-on consequences for the Billing Code. The Billing Code provides a robust assessment of a Code member's overall domestic billing performance, including on backbilling, and features a demanding external audit that is conducted annually which measures compliance against the Code. If a backbilling limit were to be introduced in licence then this part of the Billing Code may be removed.
12. In terms of the wider impact, it is difficult to predict whether removal of the backbilling element of the Billing Code would lead to the Code's demise, though it is the most significant part. However, it would appear likely that the external work conducted by EUK to highlight and clarify the application of the backbilling obligation for all suppliers (including new entrants), through the publication of the EUK backbilling scenarios document and associated promotion, would come to an end. There may also be an adverse impact on efforts to expand membership of the Billing Code.
13. Given the potential ramifications for the backbilling clauses and related activities, as well as for the Billing Code more generally, we suggest that Ofgem should proceed cautiously with its proposals. If it decides to go ahead, Ofgem should consider how best to replicate the valuable scenarios document currently compiled and updated by Energy UK which assists suppliers with the interpretation of what can be complex backbilling cases, ensuring consumers benefit from a consistent level of protection.

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

14. British Gas agrees with Ofgem's proposal for suppliers to publish billing performance data for consumers with smart meters. We support the intention which underpins this proposal: to enable customers to make switching decisions based on comparative performance in delivering accurate bills to their smart metered customers.
15. As part of this task, it will be imperative suppliers adopt a consistent approach so that they are recording and displaying figures based on the same criteria to allow customers to make meaningful comparisons. We would be happy to participate in discussions with Ofgem, other suppliers and stakeholders to ensure the chosen metrics are clear, consistent and enable customers to make informed switching decisions. In addition, Ofgem should ensure that any proposal does not impose onerous or unnecessary reporting costs on suppliers.
16. We would suggest that Ofgem's proposal to publish smart billing performance data should be aligned to, and cognisant of, the approach advocated in Ofgem's recent consultation on customer service indicators. In our response to this recent consultation we outlined criteria against which publication of specific items of data should be evaluated in order to ensure it is in the best interests of domestic consumers. These principles should apply equally to the proposal to publish smart billing accuracy figures.

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

17. We recognise that microbusiness consumers stand to benefit from accurate billing in a similar way to domestic customers. We therefore consider that a consistent approach should apply to microbusinesses as to domestic consumers.
18. While we are supportive of the proposed efforts to improve billing accuracy, significant changes would need to be made to our non-domestic systems in order to facilitate the proposed changes. Practical consideration must also be given to the wide range of advanced metering solutions that exist in the non-domestic space, and the interoperability issues this can create. The DCC will provide solutions for many communications issues, however a significant number of Foundation stage meters – which will be in operation until 2020 or beyond - will not be supported by it.
19. We note that Ofgem proposes that where a supplier inherits a smart meter that they are unable to support, the smart backbilling limit will not apply. However, creating a Supply Licence Condition obligation on the new supplier creates no incentive for an outgoing supplier to improve how they share critical smart metering information, such as passwords, or if a smart capable device has in fact proven unable to remotely communicate.

## **CHAPTER: Three**

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

20. As detailed in our answers above, we query whether Ofgem action is required on smart billing and recommend that Ofgem reconsiders its proposal to introduce a prescriptive licence change. However, if Ofgem decides to proceed, we recognise the advantages of opting for a defined time limit rather than setting a limit based on a certain number of billing cycles. Suppliers and stakeholders are used to operating to a set time period and opting for another metric (e.g. number of billing cycles) may have unintended consequences, such as creating incentives to bill less frequently.
21. We also agree in principle that a smart backbill limit of six months is appropriate, provided that suppliers have sufficient time to implement the change. We recognise that Ofgem has attempted to strike a balance between current rules and the desire to eliminate backbills entirely, and consider that six months will challenge suppliers to offer a significant improvement on current rules. However, we do have some concerns about the potential impact on fixed Direct Debits – please see our answer to Q1 in Chapter 4 for further details.

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

22. Ofgem states that their ambition is for protections to be in place as soon as possible. However, to allow suppliers sufficient time to implement changes it is suggested that the new backbill arrangements will come into force six months after a final decision.
23. While there is a degree of uncertainty over when exactly the Ofgem proposals might be introduced, we consider that suppliers should be given sufficient time to introduce the enhanced protection for customer with smart meters. There are a number of reasons for this:
  - a. Most importantly, it compels suppliers to deliver a service and provide assurances ahead of the launch and stabilisation of the DCC, which will provide the infrastructure upon which smart meter functionality will depend;
  - b. Contrary to Ofgem's views, implementation of the proposed change will require substantial work on our core billing systems and to the processes which are built upon them. Pushing for early delivery creates the risk that processes may not have been fully tested;
  - c. It penalises suppliers, like British Gas, which have invested and started roll-out promptly in order to meet the 2020 objective since the obligation will apply to a far greater number of their meters; and
  - d. Conversely, it demands that suppliers who have little experience of smart meter rollout, and the potential billing difficulties which can be encountered particularly in the early stages of rollout, sign up to deliver something which they have no practical

experience of. If this risk is deemed to be too high it may lead to some suppliers delaying rollout, depriving customers of the benefits of smart meters for longer than otherwise might have been the case.

24. For these reasons, implementation should have a longer lead time. It would also be sensible for the introduction of this obligation to be delayed until such time as the DCC has launched and there is a track-record of its operation and performance.

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

25. We agree with Ofgem's intention to limit backbilling by requiring 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.

26. As we mention above, there may be circumstances where the failure to bill accurately is not attributable to either a supplier action or customer fault, for example where there is a problem with the smart meter communications infrastructure, or where the previous supplier does not provide the passwords to access the meter. We would request that this is reflected in any licence requirement since suppliers should only be held responsible for their failure to bill accurately where this is due to something they have direct control over.

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

27. In its consultation document, Ofgem states "*We do not consider that a smart backbill limit would lead suppliers to incur significant costs*". We consider that this assessment fails to reflect the complexities involved with making change. While our billing systems are geared towards achieving maximum billing accuracy, with processes in place to deal with errors and exceptions, the proposed changes are not straightforward and would necessitate systems changes to allow us to differentiate between smart and non-smart meters, fault and non-fault, and (for non-domestic consumers) microbusiness and larger business customers, as well as all combinations thereof. As well as having to set up and run parallel billing processes, we would also be forced to make significant consequential changes to other systems which have been built upon the backbilling rules (e.g. revenue processes).

28. Our SAP ISU billing system is large, complex and is critical to our customer experience, financial reporting and major operational processes. Whilst system changes may sound simple in principle, no change to the billing system is straightforward. Each and every change must follow our governance and control procedures. It must also be considered along with other competing system change priorities, and it is only through following our rigorous change processes that we can minimise the risk of unintended consequences that could impact negatively on our customers and our ability to operate controlled processes.

29. The amount of change that would need to be undertaken to the core billing systems and also the processes which are built upon the billing system, as well as the time required to make these changes, should therefore not be underestimated. Given the complexities involved in making such change, and the desire to minimise customer detriment, we recommend that a longer timescale for implementation is required than the six months from a final decision that Ofgem proposes. We further recommend implementation should occur no earlier than such time as the DCC has launched and there is a track-record of its operation and performance.

**CHAPTER: Four**

**Question 1: Do you have any comments on our proposed approach to these objectives (on change of supplier, billing frequency and Direct Debits)?**

30. Ofgem proposes to leave billing frequency and Direct Debits (DDs) alone because "*the natural incentives on suppliers in a competitive market are sufficient to achieve these objectives*". British Gas agrees with this view.

31. However, we do have some concerns with the potential impact of Ofgem's proposals on fixed Direct Debits (DD) for domestic customers. If Ofgem sets the backbilling limit to exactly 6 months in order to align it to the reassessment that occurs at roughly the 6 month point in a customer's fixed DD payment plan, then this may have an adverse impact on how suppliers deal with customers who receive bi-annual statements.
32. The reason for this is that the vast majority of these accounts will not be billed / reassessed at precisely the 6 month mark but rather shortly after 6 months. This is in order to allow for the full 6 months consumption to be taken into account and to receive an up to date read at the end of the 6 month period. This time also gives us the opportunity to resolve any connectivity issues experienced when receiving the read before this impacts the customer statement. Both of these aspects are important for getting the reassessment correct.
33. Given these timelines, Ofgem's proposals would mean we would not be able to bill / reassess the customer's DD upwards for the period beyond 6 months – a period which may possibly be only a few days. This would be costly for suppliers and potentially confusing for customers as it would repeatedly re-occur until suppliers can implement billing processes which take advantage of the more regular readings provided by smart meters, and use these to prompt billing, rather than replicating traditional billing processes and associated timings.
34. Some flexibility around this matter would help to alleviate this, and allow customers to continue to benefit from the way that fixed DD currently operates. For example, this might involve allowing suppliers to send out fixed DD reassessments for the 6 month period within a slightly longer window, though these would still apply to the 6 month period. We would be happy to discuss this further with Ofgem.