

Energy UK Response to Statutory consultation on the post-2020 smart meter rollout supplier reporting requirements

26 November 2019

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership. We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses. The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

Introduction

Energy UK notes that a number of key dependencies within Ofgem's proposed framework remain unresolved, in particular relating to how the changes to the reporting regime reflect the post-2020 framework proposed by the Department for Business, Energy and Industrial Strategy (BEIS). Therefore, Energy UK would welcome the opportunity to provide a more comprehensive response once these dependencies are resolved. Nonetheless, Energy UK appreciate that Ofgem recognise the need for suppliers to receive further clarity on post-2020 arrangements. Our response is not confidential.

Executive Summary

Energy UK expresses its disappointment with the timing of this consultation. While Energy UK appreciate the attempt to provide clarity on the post-2020 reporting requirements, it notes that it is difficult to provide a comprehensive response to most of the minded-to positions when they are dependent on the framework proposed by BEIS for the post-2020 rollout period. Not only was this proposed framework under consultation at the time of Ofgem's consultation being published, it was a first consultation with a minded-to position. Any consultation on matters relating to this future framework should be withheld until any binding obligations on suppliers are finalised by BEIS in order for the impacts of changes to the rollout reporting to be accurately assessed. Energy UK therefore requests that Ofgem does not implement any of the proposed minded-to changes until the final post-2020 framework is fully implemented by BEIS, and re-consults once this is done.

Linked to this, Energy UK members have noted significant concerns about the proposed framework in which have been reflected in its response (as attached to this document). As discussed in the response, independent analysis suggests that the targets within BEIS's framework are very unlikely to be achieved by suppliers without significant changes to the customer obligation, which are not present within the proposed BEIS framework. Energy UK notes that failure to meet these targets will likely be due to factors outside of a supplier's control, and therefore the scope for Ofgem's discretion when applying enforcement action needs to be comprehensively understood.

Adding further complication is the apparent misalignment between the proposals set out by BEIS and Ofgem respectively. Within this consultation, the rationale given to justify requiring suppliers to submit a narrative around the reasons they may have failed to meet their targets within a year is in order that Ofgem may assess whether the enforcement action should be taken with respect to that supplier. This contradicts the emphasis in the BEIS proposed framework (and reflected in other minded-to positions expressed in Ofgem's own consultation) that targets imposed upon suppliers by BEIS's methodology will be binding, with no element of reasonableness applied to assessing supplier performance.

Additionally, and as discussed within the attached consultation response¹, BEIS has yet to fully finalise its methodology for calculating supplier targets post-2020. In particular, the proposed amendments to SLCs 33A and 39A and SLCs 37/43A which relate to target-setting and rollout reporting remain under consultation in the BEIS proposed framework. As such, Energy UK and its members are unable to respond to this consultation with comprehensive knowledge about how any tolerance is calculated

This misalignment in proposals will have a direct financial impact on suppliers, as there is a significant cost implication for a supplier to produce an in-depth narrative around its individual roll-out programme; Energy UK notes that these costs will effectively be redundant if there is no scope for Ofgem to avoid using enforcement action if a supplier is unable to meet its BEIS mandated target.

Finally, while Energy UK is committed to ensuring transparency is maintained within the energy industry, it does not agree that the minded-to positions requiring suppliers to publish roll-out data online are in line with this obligation. Energy UK expresses significant concern about the potential unintended outcomes of requiring suppliers to provide this information with no further context.

Answers are given in detail below. Please find attached to this document as an annex Energy UK's response to BEIS's proposed post-2020 consultation.

1.1 Reporting requirements for energy suppliers:

Energy UK agrees with the minded-to decision to define large suppliers as those with 150,000 or more customers. However, Energy UK reiterates the concern raised elsewhere within this consultation that the exact need for large suppliers to provide additional information on the progress of their rollouts is not understood within the context of BEIS's proposed framework.

1.2 Annual Reporting and 1.3 Timing for reporting; 2.1 Content of Beginning of Year Report- All Suppliers; 3.1 Content for End of Year Reporting

Energy UK cannot provide an opinion on these minded-to positions at this time. Energy UK reiterates the position expressed in its response to BEIS's consultation, that a future obligation should be applicable to all suppliers, and also notes the significant concerns shared across the industry about the obligation proposed by BEIS. Energy UK is therefore unable to adequately address these minded-to positions until the final obligation is confirmed by BEIS.

2.2 Additional Reporting for All Suppliers; 3.2 Additional End of Year Performance Reporting for All Suppliers

Energy UK cannot provide a comprehensive opinion on this minded to position at this time. While it does not oppose the proposal for large suppliers to provide the listed information in and of itself, Energy UK cannot agree to support Ofgem's minded-to position while the final post-2020 framework has yet to be confirmed. The framework proposed by BEIS sets hard targets for suppliers to meet, with no 'reasonableness' test applied to supplier performance against these targets. However, the Ofgem consultation suggests that Ofgem will take into account operational factors when deciding whether to take enforcement action against any supplier that has not met their BEIS mandated target.

There are significant cost and time implications for suppliers to provide these projections on this basis, and note that these are effectively redundant, should there be no scope for Ofgem to use discretion when assessing a supplier's performance against targets. Energy UK note that Ofgem's enforcement guidelines do not sufficiently cover the discretionary power Ofgem will have in this instance, and notes that further clarity would be required on how Ofgem will assess a supplier that has not met a mandated target but has otherwise done all within its power to ensure it has capacity to meet its BEIS-mandated target.

¹ See answer to Question 5 in Energy UK's response to BEIS's consultation on post-2020 Smart Framework

Energy UK therefore questions the value of suppliers providing forecasts of operational capacity and dependencies, when there is apparently no scope for Ofgem to avoid enforcement action should a supplier fail to meet its yearly target.

2.3 Process for Managing Beginning of Year Submissions

Energy UK do not oppose the minded-to position as drafted, but notes that it is unable to provide any further opinion for the reasons given above

4.1 Publication of Information- All Suppliers; 4.2 Additional Information to be Published- Large Suppliers;

Energy UK does not agree with the minded-to position for suppliers to publish their roll-out forecasts on their websites.

Energy UK disagrees with the rationale provided for this change, that requiring suppliers to publish the number of smart meters installed against target is in-line with the Energy Data Taskforce's recommendations around data transparency. While the recommendations listed relate to provision specific data via a data catalogue and asset registration, and are intended to create system wide benefits and aid customer decisions, they are not a 'catch-all' doctrine requiring any information to be published. Any changes made under these recommendations should be adequately justified as meeting the recommendations of the task force.

Ofgem have not adequately explained within this consultation why requiring suppliers to publish raw numbers of meters installed against targets, with no further context provided around their own individual rollout provides benefits for consumers or systems; While publication of energy efficiency advice provision per supplier can act as a performance indicator for suppliers (As provision of this advice is entirely within the supplier's control), publishing the number of meters installed against a target does not. In particular, a supplier may well install fewer meters than forecasted due to factors outside of its control, whether technical or due to customer take up². As such, this information does not provide an accurate assessment for customers as to their supplier's individual performance.

Requiring suppliers to publish the number of meters installed by them with no further context will not allow for customers to make informed choices when reviewing the market. These numbers will not, for instance, reflect certain technical constraints that may only affect certain geographical areas, or meter types³. A customer, therefore, cannot make an informed choice as to whether they can obtain a smart meter simply by reviewing this information alone

There is, however, a risk that requiring suppliers to publish this information could, instead, hinder the roll-out; there is a significant risk of an increase in negative customer sentiment, should any number of suppliers be recognised as falling behind their targets. This will reduce customer uptake and therefore constrain the rollout of Smart Meters across customers.

Additionally, requiring suppliers to publish this information 'prominently', will mean that other, more important information will potentially be displaced, and as such distract from information that is more likely to aid customer choice, such as tariff rates, complaints charters and back-billing policies.

Energy UK do, however, agree with Ofgem's assessment that requiring suppliers to provide additional information should not be required, as the dependencies and information required is commercially sensitive. Energy UK note that compromise is possible through a continuation of the current arrangements: namely BEIS publishing consolidated statistics on the number of smart meters installed, and broken down both into geographical and meter type categories. This will also allow all

² See answer to Question 3 in Energy UK's response to BEIS's consultation on the post-2020 Smart Framework

³ This is noted in the context of ongoing technical issues with both the Data Communications Company's Northern Communication Service Provider, and the ongoing constraints around rolling out SMETS2 Prepayment Meters, factors which are beyond the control of individual suppliers.

data to be held centrally, and will aid consumer choice much more than requiring suppliers to publish this data individually.

5. Reporting Framework

Energy UK cannot provide an opinion on the proposed drafting of these Licence Changes for the reasons noted above. Ofgem must refrain from implementing any licence changes until the final post-2020 framework is confirmed by BEIS, and once the changes needed to facilitate any new framework have been reconsulted on.

Yours Sincerely

Edmund Frondigoun