



E.ON Response to Ofgem Consultation; Smart Prepayment for a Smarter Market Proposals

General Comments

We are pleased to have a further opportunity to comment on these proposals.

As noted by Ofgem, much of the groundwork for this area was completed with the introduction of the Spring Package reforms in 2011. We are pleased that Ofgem does not believe that a further wholesale change in regulations to support the smart rollout is therefore needed at this time.

We agree with the proposals for Change of Supplier (CoS), we believe this to be the most pragmatic way forward to build customer confidence and wider engagement within the market in the short term, while operational experience grows. In addition this should be monitored carefully, alongside other market developments to ensure these are not abused by anyone who may seek to exploit any potential opportunities to avoid repayments.

The proposals to monitor customers who expressly opt to take Pay As You Go (PAYG) products on the basis of no cash transactions is interesting and perhaps needs further consideration as to what this is trying to achieve. PAYG is a fantastic opportunity for suppliers to explore some of the new methods of payment to break down existing barriers and preconceived views about PrePayment. For example some customers may choose to pay via mobile app for convenience but they may also like the flexibility to pay by another means if their circumstances dictate. It may be of more interest for Ofgem to understand what proportion of customers regularly pay by one means or another over time, rather than simply those who express a preference for a particular method.

In general we have some reservations over the monitoring requirements. Whilst we can see some benefit in a wider understanding of the offering of these facilities and take up in the market, it remains unclear what this data would be used for in the longer term. It is important that the reporting burden on suppliers remains proportionate to the risks that Ofgem is seeking to mitigate.

We are pleased Ofgem has recognised the issues regarding secondary gas metering. We are supportive of further initiatives by Energy UK looking at alternative ways of mitigating these risks and would welcome any further assistance Ofgem can provide to facilitate a sensible resolution for all. If the regulations remain as currently drafted, this could be viewed by customers as a barrier to a wider engagement with smart metering and in particular PAYG products and services.

DECC, Ofgem, Industry and wider stakeholders will need to plan carefully for the phasing out of the traditional PrePayment Meter Infrastructure Provider (PPMIP) and gas Quantum services. This will need careful management and its timing will be dependent on a number of factors. If these are not managed out in a coordinated manner, the costs of operating this infrastructure may become unsustainable for the numbers of customer who remain using it. In this regard Ofgem may be best placed to play a role, ensuring a suitable and timely run down of this area.



Responses to Specific Questions

Chapter: Two

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**

We agree with the proposal and believe this to be the most pragmatic way forward to build customer confidence and wider engagement within the market in the short term, while operational experience grows. We also suggest that this should be monitored carefully, alongside other market developments to ensure these are not abused by anyone who may seek to exploit any potential opportunities to avoid repayments.

For the vast majority of CoS events, we expect the time between the old supplier and new supplier removing and then re setting their respective meter configurations to be a matter of minutes or less. The amount of energy consumed in this period will be minimal and we expect a co-incidental communication outage and CoS to be a very rare event. The risk of customers incurring large debit balances is therefore mitigated.

We are pleased Ofgem has recognised the issues regarding secondary gas metering. The DECC Operational Delivery Group (ODG), which Ofgem attends, has reviewed these requirements on a number of occasions, without agreeing a way forward. We are supportive of further initiatives by Energy UK to look at alternative ways of mitigating these risks and would welcome any further assistance Ofgem can provide to facilitate a sensible resolution for all parties

It should also be noted that this issue impacts not only CoS events but also any remote switching of the mode of operation of a smart meter between credit and PAYG. If the regulations remain as currently drafted, supplier adherence could be viewed by customers as a barrier to a wider engagement with smart metering and in particular PAYG products and services.

Question 2: Do you agree with our proposal to monitor suppliers' offerings of key smart repayment functionalities through our Social Obligations Reporting? If not, please:

- **explain why**
- **suggest and explain any alternative(s)**

It is not clear at this time why Ofgem requires monitoring of these items or what purpose it is going to use the information it collects. Whilst we can see some benefit in a wider understanding of the offering of these facilities and take up in the market it remains unclear what this data would be used for in the longer term.



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)***

Whilst we understand some of the rationale for collecting these data items, it is not clear what Ofgem will do with this information in the longer term.

The requirement to report on top up channels needs some further thought. We will offer our customers a range of channels to pay. However, the use of these channels may become more transient, as some customers may choose to switch between methods for convenience.

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***

Yes. These are areas where the market should be left to develop and innovate further for the benefit of our customers.

Chapter: Three

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 are in the early stages of developing and rolling out our smart PAYG products and services but in general we would agree that the existing framework is delivering the intended protections for customers.

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.***

Yes. These seem sensible and update the guidance in line with the evolving world of electronic payments that can now be offered to PAYG customers.

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)

Yes we are pleased to see the guidance updated.



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.**

PAYG is a fantastic opportunity for suppliers to explore some of the new methods of payment to break down existing barriers and preconceived views about PrePayment. However, this proposal perhaps needs further consideration as to what this is trying to achieve and at what point such information should be recorded.

We make all payment options available to our customers. Recording what someone prefers will be complex to incorporate into our processes and may not deliver the insight that Ofgem requires. For example some customers may choose to pay via mobile app for convenience but they may also like the flexibility to pay by another means if their circumstances dictate e.g. cash. It may be of more interest for Ofgem to understand what proportion of customers regularly pay by one means or another over time, rather than simply those who ask to pay by a particular method at any given time.

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)

Whilst we understand some of the rationale for collecting these data items, it is not clear what Ofgem intends to do with this information in the longer term. It is important that the reporting burden on suppliers is proportionate and necessary. As stated in answer to question 8 above, the collection of data per payment method requires some further consideration as to what its objective will deliver in the longer term.

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.

Until all existing prepayment customers have switched over to smart meters there remains an issue of the costs of continuing to operate the traditional PrePayment Meter Infrastructure Providers (PPMIP) to support remaining electricity and the national Quantum office for gas.

Whilst we are in effect in a transitional period to a fully smart metered customer base, the costs to service these traditional prepayment services will be higher and likely increase as the volume of customers decrease. To mitigate these risks careful management is required through this transition, to ensure these services (PPMIP/Quantum) are removed at the most appropriate time.



The expected costs to serve between traditional prepayment and smart PAYG are expected to be less. Our current proposition for PAYG aligns with our Direct Debit products. However, we remain very much at the early stages of the smart PAYG transition. Whilst DCC re-planning continues along with changes to the baseline services, it is difficult to predict with any certainty what the final out turn may be.

Chapter: Four

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**

Yes. This is a pragmatic approach that Ofgem consider any specific requirements for this sector in tandem with any recommendations from the Competition Markets Authority.

Chapter: Five

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

The removal of the PPMIP is both a consequential impact and benefit to the rollout of smart metering and should deliver operational savings which in turn should reduce the cost to serve for smart PAYG customers.

DECC, Ofgem, Industry and wider stakeholders will need to plan carefully for the phasing out of the PPMIP/Quantum services. This will need careful management and its timing will be dependent on a number of factors, such as the take up of smart meters, the extent to which the Data Communication Company (DCC) has successfully delivered its Wide Area Network (WAN) communication infrastructure and the numbers of customers who may reside in areas of Great Britain where the DCC cannot economically provide its WAN service.

If the PPMIP/Quantum services are not managed out in a sensible and coordinated manner, there could be situations where the costs of operating these services become unsustainable for the numbers of customer who remain using it. In this regard Ofgem may be best placed to play a role in ensuring a suitable and timely phasing out of these services.