

Smart billing for a smarter market

Energy UK response

2 October 2015

1. Introduction

- 1.1. Energy UK is the main trade association for the energy industry, representing over 80 suppliers and generators of all sizes. Our members supply gas and electricity and provide network services to both the domestic and non-domestic market. Energy UK members generate over 90% of energy capacity in the UK market which supplies 26 million homes and contributes over £25 billion to the UK economy each year.
- 1.2. Energy UK strongly believes that a competitive energy market supported by stable and independent regulation can foster trust in the industry and support innovation to deliver sustainable, long-term benefits to consumers.
- 1.3. Energy UK welcomes the opportunity to respond to Ofgem's consultation on smart billing for a smarter market. We are happy to discuss any of the points made in further detail with Ofgem if this is considered to be beneficial.

2. Executive summary

- 2.1. Energy UK and its members are fully supportive of the work Ofgem is leading in relation to billing in a smart world. We agree suppliers should use the readings they obtain from smart meters to bill customers accurately and also agree the current domestic 12 month back billing threshold is too long for customers with smart meters.
- 2.2. The main concerns we have in relation to Ofgem's proposal to include back billing for smart meters into licence are as follows:
 - Impact on the Energy UK Code of Practice for Accurate Bills (hereafter referred to as the Billing Code), and the impact this might have on the successful industry-wide work Energy UK leads in relation to billing accuracy, in particular the significant progress that has been made in relation to back billing;
 - Timing of the introduction of any new licence condition coming into effect considering most suppliers are not currently installing smart meters in any volume and the associated uncertainties around DCC Go-Live; and
 - The lack of any detailed impact assessment.

In addition Energy UK would like further information from Ofgem regarding:

- Whether proposed licence conditions will be considered through a non-prescriptive lens in line with Ofgem's move towards Principles Based Regulation (PBR);
- How Ofgem will approach monitoring of compliance with this obligation; and
- How Ofgem will ensure that the publication of any smart billing performance data is consistently reported to ensure consumers are able to make meaningful comparisons between suppliers.

- 2.3. We understand that Ofgem wants to have a “clear, specific and consistent minimum standard of consumer protection” in relation to a time limit on back bills. However, we believe this has already been achieved in relation to legacy meters and this could be implemented for smart meters in the form of changes to the Billing Code and Back Billing Scenarios documents that all suppliers are adhering to, regardless of whether they are Billing Code signatories or not.

3. Billing Code and the back billing scenarios document

- 3.1. As discussed during our bi-lateral meeting on the 10th September, the back billing clause within the Billing Code is supported by the separate document “Energy UK back billing scenarios for domestic customers”. This document, although not mentioned in Ofgem’s consultation, is particularly important when considering whether to implement any back billing time limit via suppliers’ licence obligations. The back-billing principle and the scenarios contained in this document have six signatories (British Gas, EDF Energy, E.ON, RWE npower, ScottishPower and SSE) and Energy UK and these suppliers have worked collaboratively over many years with Ofgem, Citizens Advice and the Ombudsman to continually update and develop the scenarios. In addition, although the back-billing principles are not in licence, they are not seen as voluntary commitments by the industry and the detailed scenarios are a recognised standard used across the industry by consumers, stakeholders (including the Ombudsman) and all suppliers.
- 3.2. It is also worth noting that Energy UK has been involved in other work across the industry to reinforce the back-billing commitments:
- Customers and suppliers including non-Energy UK members contact us regularly in relation to the interpretation of the back-billing principle.
 - At our annual Billing Breakfast meeting, we have previously held breakout sessions on back billing and the Ombudsman has spoken about common issues.
 - In February 2015, Energy UK hosted a joint back-billing clinic with the Ombudsman to educate suppliers on the application of back billing. The clinic was well attended with a good mix of large and small suppliers, including non-Energy UK members.
- 3.3. Energy UK and its members would like to continue this collaborative way of working, particularly through the first years of the smart roll-out when the industry needs to work together to resolve new issues.
- 3.4. Energy UK is concerned about the unintended consequences of introducing this new licence condition. If the smart back-billing limit for smart meters is in licence, then it would not be appropriate for Energy UK to update the scenarios document discussed above for smart related back billing issues as this would be providing an interpretation of a licence condition. Whilst the licence condition would give Ofgem some comfort that all suppliers will be adhering to the six month threshold proposed, without the supporting scenarios there is likely to be inconsistency in the interpretation of any licence condition. Energy UK and its members firmly believe this will be a backwards step in terms of consumer protection.
- 3.5. The consultation refers to the risk to the future of the Billing Code if the back-bill limit for smart meters is to become a supplier licence obligation. The Billing Code is a recognised standard which the Ombudsman and Citizens Advice expect all suppliers to meet. It has evolved over the last 10 years as different issues have arisen and past issues have been resolved and it will undergo substantial change as the number of smart meters installed increases and new issues arise. However, Energy UK and its members recognise that the number of new suppliers is changing in the industry, so it is important that the Billing Code membership changes and

expands accordingly. Energy UK believes that including back billing for smart meters in licence will severely limit our ability to recruit new members, and this will reduce the incentive on Billing Code members to retain the Code.

4. Timing of implementation

- 4.1. The timing of implementation is important. In the consultation there is reference to suppliers having time to implement any changes and to prepare for a reduced limit. However, this is only one consideration. At the moment most suppliers have no experience of installing smart meters in any volume and the type of issues that they will encounter in doing so. In addition, the DCC is not due to start service provision to suppliers until August 2016, with the additional complexities associated with the uncertainties of this date, or the functionality that will be available. It was for these reasons that the Energy UK “smart commitments” included a proposal for a nine month back-billing limit for smart meters, with a 12 month review point.
- 4.2. Energy UK and its members consider that a six month time limit should not be considered until at least twelve months after the DCC goes live. See paragraph 5.1 below for more details.
- 4.3. The consultation makes reference to the implementation of the Energy UK “smart commitments” before the introduction of a back-bill limit for smart meters becoming a supplier licence obligation. If Ofgem’s proposal of introducing a back-bill limit as a licence requirement goes ahead, the Energy UK smart commitments would need to be in place for at least one year. If not, it is unlikely suppliers will adopt the smart commitments particularly given the cost to implement any change and the likely confusion for customers if there are a number of changes to back billing limits in a short timeframe.

5. Scope of a smart back-billing limit

- 5.1. This section (3.13-3.21) in the consultation makes no reference to the part the DCC has to play in ensuring consumers receive bills with an actual read from the smart meter. In the current back-billing scenarios, the supplier would apply the back-billing principle if late bills are caused by industry data issues (not the supplier or customers fault). However, the supplier has 12 months to identify and resolve these issues. It could be that there will be very few issues which take the DCC over six months to resolve, but this is all unknown until there is more certainty of the DCC Go-Live date and associated functionality available.

6. Principles Based Regulation

- 6.1. Ofgem has stated its intention to take a more principle-based regulatory approach in future. In light of this, Energy UK questions the rationale of including in licence provisions which supersede a successful voluntary commitment, with no evidence to suggest that it is an issue for those suppliers who are already installing smart meters. Energy UK does agree that there continues to be a need for licence conditions in certain areas, and particularly where there is evidence to support this. However, back billing does not fit this criteria and we consider that the same result could be achieved with a voluntary commitment.
- 6.2. We are also concerned about the impact this obligation could have on other voluntary commitments. Energy UK has worked closely with Ofgem and other stakeholders to develop a number of voluntary standards. Two of these commitments, “Direct Debit minimum standards” and “Voluntary Standards: Back billing for microbusinesses” are affected by this proposal. If back

billing for smart meters is included in licence the appetite for developing voluntary commitments in future is likely to be severely reduced.

7. Monitoring of compliance

- 7.1. There is no mention in the consultation about how Ofgem intends to monitor compliance if back billing for smart meters is included in licence. Back billing is a very simple concept but is very complex in practice. Energy UK has found, through our experience in administering the Billing Code, developing consistent metrics to measure performance is very difficult given these complexities. One of the key advantages of the Billing Code is that suppliers' compliance with the back-billing principle is audited each year.

8. Billing performance data

- 8.1. Energy UK and its members are fully supportive of greater transparency and agree that it helps to build consumer trust in the industry. However, we are concerned about the publication of smart billing performance data particularly in the early years of mass roll out. Suppliers will have very different roll out programmes and until all suppliers have installed reasonable volumes of smart meters, this data could be difficult to interpret and could be commercially sensitive.
- 8.2. If consumers are to use smart billing performance data to make meaningful comparisons between suppliers, Ofgem also needs to ensure the consistency of the metrics being published.

9. Impact assessment

- 9.1. Ofgem has set out the reasons why it believes the proposals would not have a significant cost for suppliers. Energy UK considers the analysis in the consultation over simplistic and does not take account a number of factors. There are significant differences in suppliers' systems and how easy it will be to implement such a change will vary for suppliers. For some suppliers, this could be a simple parameter change however for others it will involve significant system code changes.
- 9.2. In addition, with all of the uncertainties described in our response above, there could be many customer accounts where the back-billing principle doesn't apply but which are reported for suppliers to manually review. It is difficult to determine how much of an administration burden this will place on suppliers but it could be significant, particularly for smaller suppliers which may have less sophisticated back-billing processes.
- 9.3. Another consideration which has been missed in the consultation is the potential impact on new entrants to the market and the credit risk this proposal could impose in terms of system changes and potential loss of revenue.

10. Microbusiness

- 10.1. Ofgem has asked for views on whether a six month limit should apply to microbusinesses. Energy UK agrees with the concerns raised by Ofgem in the consultation (2.28-2.30). In addition, many smaller suppliers are still working to reduce their time limit for back bills from three years for electricity and four years for gas. A reduction from three or four years to six months could have a disproportionate impact on these suppliers.