

Ofgem's Smart Prepayment for a Smarter Market proposals

Energy UK response

23 October 2015

1. INTRODUCTION

Energy UK is the main trade association for the energy industry, representing over 80 energy generators and suppliers 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 capacity in the UK, supply 23 million homes and contribute over £25 billion to the UK economy each year.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to Ofgem's smart prepayment for a smarter market proposals. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

2. EXECUTIVE SUMMARY

Energy UK welcomes Ofgem's proposals for smart prepayment for a smarter market. The proposals recognise that Ofgem, working alongside industry, has already made considerable efforts to ensure that the existing regulatory arrangements are fit-for-purpose in a smarter market. Energy UK and its members are fully committed to developing optimum prepayment arrangements for smart meters. We look forward to continuing to work collaboratively with Government and Ofgem to ensure that the smart prepay customer experience is both simple and seamless.

Energy UK's high level views on the consultation questions are set out below.

Change of Supplier Process

The very nature of the GB smart metering solution means that there could be instances where Wide-Area Network communication between the DCC and smart meters fails (a 'No-WAN' situation). In preparation for this the appropriate arrangements are already in place to ensure that consumers can continue to top-up prepayment credit in No-WAN situations by manually entering a Unique Transaction Reference Number (UTRN) either on the smart meter itself, or via another customer interface device (such as a PPMID).

As noted in the consultation document, there could however be instances where a No-WAN situation exists during the Change of Supplier (CoS) process, adding a risk that consumers may be unable to top-up their smart prepayment meter once their supply has switched to their new supplier. With this in mind, Energy UK and its members have developed and agreed some broad principles aimed at limiting the impact on consumers of No-WAN situations coinciding with a CoS event. In summary, these principles are:

- For the outgoing energy supplier to send commands to the smart meter that should switch the meter into credit mode either immediately prior to, or at the point of CoS;
- Where the outgoing supplier has had no confirmation that the smart meter has been switched to credit mode, the outgoing supplier to notify the incoming supplier that they may be inheriting the smart meter in credit mode; and
- As part of this notification, the outgoing supplier to notify the incoming supplier of how it intends to help facilitate the continuation of supply until WAN is restored.

It is the intention that these principles should apply to all smart meters capable of operating in prepayment mode, therefore including non-SMETS, SMETS1 and SMETS2 smart meters. We are continuing to work with suppliers in this area with the aim of introducing agreed principles into the relevant industry governance arrangements.

Safe and Reasonably Practicable Guidance and Social Obligations Reporting (SOR)

Energy UK welcomes the proposal to update the Safe & Reasonably Practicable Guidance to reflect smart prepayment arrangements. The additional SOR requirements proposed also appear broadly sensible, and should help provide early visibility should there be particular areas of concern that need to be addressed by industry as a whole.

Phasing out traditional prepayment infrastructure

The phasing-out of traditional prepayment infrastructure is an area that Energy UK's members have both concerns with, and experience in dealing with. At the present time, it is extremely difficult to gauge the expected volumes of consumers with legacy prepayment meters that might not be able to benefit from a truly smart prepayment solution. Energy UK believes that there will be a need for a dedicated mini-project (under either DECC or Ofgem leadership) to ultimately take this work forward, and to formulate an appropriate strategy for dealing with this group of prepayment consumers. It will be vital to ensure that there is a mix of stakeholders involved including organisations such as Smart Energy GB, the Citizens Advice, Age UK etc.

3. RESPONSES TO THE CONSULTATION QUESTIONS:

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; and if relevant, suggest and explain any other action we should take.

Energy UK response: Yes. For the vast majority of prepayment CoS events, there will be a seamless switch with the relevant smart meter configuration activities from the incoming supplier successfully taking place over-night. We note, however, there could be instances where the incoming supplier might not be able to communicate with the smart meter in order to deliver its meter configuration messages (i.e. No-WAN situations), and this could lead to instances where the consumer is unable to top-up following a CoS event due to the outgoing suppliers' security credentials remaining on the meter. Any top-up messages from the incoming supplier will simply be rejected.

With this in mind, Energy UK and its members have considered various options that limit the potential impacts on consumers during the Change of Supplier (CoS) process where there are WAN connectivity problems. Energy UK members have concluded that the most practical and safest action is for the outgoing supplier to place the smart meter into credit mode prior to, or at the point of, CoS. This should

ensure that even if the incoming supplier is unable to deliver its smart meter configuration messages, the smart meter is operating in credit mode (until such time as the incoming supplier is able to configure the smart meter accordingly), thus ensuring the continuation of supply for the consumer.

One of the key factors in our considerations is that neither the incoming, nor outgoing supplier has any interest in the contractual arrangements between the consumer and the other supplier. The incoming supplier and consumer will agree terms of supply, and the incoming supplier remains solely responsible for configuring the smart meter at the point of CoS to reflect those contractual arrangements. This includes configuring the meter into prepayment mode, setting prepayment specific parameters (such as emergency credit/friendly credit/debt repayment rates etc). There is no correlation between the configuration settings between the two suppliers involved, with a clean-break for the outgoing supplier, and clean-start for the incoming supplier.

Energy UK and its members have committed to ensuring that the principles agreed around this solution are delivered into formal industry governance arrangements. For electricity, this will be in the form of a Master Registration Agreement 'Agreed Procedure', and for gas, this will be in the form of a new Supply Point Administration Agreement Schedule.

In addition, Energy UK and its members are developing additional principles to deal with instances where the outgoing suppliers' message to switch the smart meter from prepayment mode to credit mode fail. Whilst these principles are currently being developed, they are focused on the outgoing and incoming supplier working together to ensure continuation of supply post-CoS.

The basic principle will be, where the outgoing supplier has had no confirmation that the smart meter has been switched to credit mode, for the outgoing supplier to pass a UTRN to the incoming supplier. The UTRN that will either allow the consumer to top-up the smart meter (likely for a fixed financial value) or, where the technology allows, switch the smart meter into credit mode via the use of a UTRN until the incoming supplier is able to rectify the No-WAN situation. If the outgoing supplier is able to continue accepting credit top-up transactions post-CoS, then this will also be allowed by the incoming supplier for an agreed period. Suppliers agree that credit top-up transactions post-CoS should only ever be allowed for a defined period in order to minimise the impact of mis-directed payments.

Recognising that energy suppliers could have very different internal processes, as well as utilising different metering technology solutions, the additional principles have been developed so as to allow a level of flexibility, whilst retaining the overall objective of 'keeping the customer on-supply'. Whilst some suppliers have expressed a desire for single solution arrangements, a range of solutions allowing some level of flexibility is likely to deliver appropriate outcomes in the most efficient and effective manner.

Energy UK and its members are continuing to work in this area. The ultimate aim will be to also include the final agreed principles in the relevant industry governance structures (the Master Registration Agreement and Supply Point Administration Agreement). Placing the arrangements described above in industry code will ensure that all energy suppliers are operating to aligned and consistent principles.

Question 2: Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting? If not, please: explain why; and suggest and explain any alternative(s)

Energy UK response: In principle we agree with Ofgem's proposal to monitor suppliers' offerings of key smart prepayment functionalities through Social Obligation Reporting. It is important that Ofgem holds adequate evidence to successfully fulfil its role in monitoring the market, understand the impact of its current policies, and use this information to inform appropriate and effective policy decisions.

It is, however, important Ofgem ensure that any ongoing reporting requirements placed on suppliers are proportionate and cost effective. Proportionality is a key principle for good regulation, ensuring resources are commanded only when necessary and in a cost effective manner.

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; and suggest and explain any alternative(s)

Energy UK response: Please see response to Q2 above. We anticipate that suppliers may want to provide more detailed feedback on the specifics of the proposed data points suggested for inclusion in the SOR.

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; and suggest and explain any action we should take

Energy UK response: Yes. Ofgem's approach is welcomed by Energy UK and its members at this time.

Energy UK's high level views on each of the areas identified by Ofgem's consultation are set out below:

- *The perfect storm scenario:* No-WAN and no access: The ultimate action for an energy supplier in such circumstances will be a site-visit. Although consumers should still be able to input a UTRN at the meter itself, there could be instances where this is difficult, or not possible at all. Suppliers will have the capability to respond to this type of event very quickly, treating them as a 'No Supply' occurrence covered by the existing Guaranteed Standards of Service obligations. Energy UK agrees with Ofgem that no further regulatory intervention is required.
- *Self-Disconnections:* The data gathered from smart prepayment consumers relating to instances of self-disconnection will present an opportunity for suppliers to have a much better understanding of the frequency and timings of these events. Energy UK is pleased that Ofgem has recognised that suppliers' understanding of such situations will evolve as more smart meters are operated in prepayment mode, and as consumers become accustomed to the new prepayment top-up arrangements. Suppliers will continue to work collaboratively with organisations such as Citizen's Advice in this area. Energy UK agrees with Ofgem that no further regulatory intervention is required.
- *Change of Tenancy:* Ensuring consumers understand the importance of notifying their supplier of a Change of Tenancy event remains a challenge, regardless of the metering technology involved. There is however an opportunity for this message to be reinforced as part of the wider-consumer engagement activities associated with the roll-out of smart meters – for example, Energy UK has included messages highlighting the need for consumers to tell their energy supplier when they are moving home in our 'Smart Meter Data Guide'. We fully expect these messages to be reinforced by all parties involved in communicating with consumers regarding the roll-out of smart meters including Smart Energy GB, Citizens Advice etc. Energy UK agrees with Ofgem that no further regulatory intervention is required.
- *Customer Communications:* All suppliers will need to ensure that consumers understand how to operate their smart meter in prepayment mode. Whilst each energy supplier will have its own strategy in this area, Energy UK is aware that some suppliers are already communicating with their smart meter customer base, with others considering how to effectively communicate with their customers. Energy UK has dedicated resource in its 2016 planning activity to help support Smart Energy GB in this area. Energy UK agrees with Ofgem that no further regulatory intervention is required.

All of the remaining areas noted by Ofgem should be classed as Business As Usual (BAU) scenarios for suppliers to consider as part of their smart metering roll-out strategies. The vast majority fall within the need for effective and simple communications with consumers as part of either the Change of Tenancy customer journey, or the payment mode switch customer journey. Energy UK's members are

committed to addressing these as part of their smart meter roll-out strategy considerations. Energy UK agrees with Ofgem that no further regulatory intervention is required.

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; and suggest and explain any action we should take

Energy UK response: Ofgem, working alongside industry, made considerable efforts under the Spring Package work to ensure that the existing regulatory arrangements are fit-for-purpose for a smarter market and that there appears to be no undue barriers to innovation at present. Energy UK and its members therefore agree with Ofgem's current conclusion, but note that as innovation develops, there may be a need to revisit the regulatory arrangements at some point in the future.

Question 6: Do you agree with our proposal to update the Safe & Reasonably Practicable Guidance? If not, please: explain why; and suggest and explain any alternative action we should consider.

Energy UK response: Energy UK welcomes the proposal to update the Safe & Reasonably Practicable Guidance to reflect smart prepayment arrangements.

Question 7: Do you agree with our proposed amendments to the Safe & Reasonably Practicable Guidance? If not, please: explain why; and suggest and explain any alternative amendments we should consider.

Energy UK response: As noted in our response to Question 6, Energy UK welcomes the proposal to update the Safe & Reasonably Practicable Guidance to reflect smart prepayment arrangements. We anticipate that suppliers will provide more detailed feedback on the specifics of the proposed amendments to the Guidance. It is important that any Guidance provided by Ofgem is framed in terms of factors a supplier is reasonably able to take into account and control.

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; and suggest and explain any alternative amendments we should consider.

Energy UK response: Whilst our members agree that understanding how customers are making use of different payment methods might be useful to monitor, we note that number of smart prepayment consumers who have actively asked for alternative top-up methods could be a difficult piece of information to collect.

Where requests are made during general call centre contacts, it will require a new/dedicated field in suppliers' systems to enable this information to be captured, this will require additional system development/change at a time when suppliers' internal change teams are implementing a number of key industry changes. It is unlikely that a change of this nature could be given priority over other implementation projects. Furthermore, it could be the case that consumers identify alternative top-up methods without speaking to a call centre agent, rendering any information captured in this area incomplete data. Energy UK would, therefore, question the usefulness of the data

The proposal also assumes that a customers will only make use of one payment channel. In practice, customers may choose to make use of multiple payment channels, including cash, on a regular basis depending on their circumstances and what is most convenient.

It may be more appropriate to ask suppliers to report on the levels of prepayment top-ups by payment channel in order to gather any meaningful understanding of consumer behavioural change resulting from the introduction of smart meters.

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; and suggest and explain any alternative(s).

Energy UK response: For the reasons noted in our response to Q8 above, Energy UK and its members have particular concerns with the practicality of 8A.27 and would encourage Ofgem to review its proposed drafting.

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.

Energy UK response: Energy UK's members will respond to this question on an individual basis.

Question 11: Do you agree with our proposed approach to micro-businesses? If not, please: explain why; provide any evidence to support your position; and provide details on which existing arrangements we should consider extending to micro-business consumers, and why.

Energy UK response: Energy UK and its members agree with Ofgem's conclusion that with the exception of the CoS arrangements covered under Question 1, there is no evidence to support the need to include Micro-Business Customers in the scope of the remaining proposals. Where Micro-Business Customers are supplied under a Domestic Contract (as noted by Ofgem) and those customers have a smart meter operating in prepayment mode, the fact that they have a Domestic Supply Contract will mean that they will be afforded the wider prepayment protections covered under Licence obligations.

Energy UK agrees that it would be appropriate to review arrangements in the Micro-Business sector if there is a notable increase in the take-up of prepayment in the future.

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

Energy UK response: Energy UK large supplier members have all been involved in projects where a prepayment technology has been previously phased-out, ranging from the removal of 'coin-operated' meters, through to the more recent removal of paper-token electricity prepayment meters.

The key to a successful project of this nature is the need for industry to work together, using a central co-ordinator to ensure that where issues are identified, there is a collectively agreed solution put in place. Effective communication will be essential, meaning there will be a significant role for 'help organisations' to play such as Smart Energy GB, the Citizens Advice, Age UK etc in ensuring there is consistent customer messaging throughout the process.

At the present time, it is extremely difficult to gauge the volumes of consumers with legacy prepayment meters that will not be able to benefit from a truly smart prepayment solution. With the Communications Service Providers still rolling-out their communications equipment and the Smart Metering WAN coverage checking facility in its early stages of implementation, it is not yet clear which geographical locations will be out of reach. Once industry has a better understanding of this information, energy suppliers will be able to map their existing prepayment consumers against the WAN coverage data to identify where the gaps lie. Ofgem could play a leading role in pulling this type of analysis together at the appropriate point in time.

Energy UK believes that there will ultimately be a need for a dedicated mini-project (under either DECC or Ofgem leadership) to lead the work in phasing-out legacy arrangements and to formulate an appropriate strategy for dealing with this group of prepayment consumers. It will be vital to ensure that there is a mix of stakeholders involved including organisations such as Smart Energy GB, the Citizens Advice, Age UK etc.

Overall, however, Energy UK agrees with Ofgem that the phasing out the traditional prepayment infrastructure should not be an immediate priority at this time, but consideration is required as to when collective industry discussions are needed. Energy UK believes it would be appropriate for Ofgem to include this in its forward work-plan as a specific work package to deliver.

If you have any questions, please feel free to contact Dan Alchin at Energy UK on 020 7747 2965 or at daniel.alchin@energy-uk.org.uk.