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2 October 2015

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Dear Bart

### **Smart billing for a smarter market: proposals**

npower has participated fully in the workshops and meetings leading up to your proposals and we welcome the opportunity to comment now on the consultation. I attach our response, which is not confidential.

Consumers expect more accurate billing as a consequence of smart metering. It is our challenge as suppliers to deliver it. We therefore support your proposals in principle subject to the specific comments below.

Please contact me if you have any questions.

Yours sincerely

Gerald Jago  
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## **Appendix – Smart billing for a smarter market**

### **Back billing limit and proposed timescale**

We are sympathetic to the proposal to limit domestic and micro business back bills where smart metering has been installed. Consumers should expect more accurate billing when suppliers are able to obtain data remotely, therefore overcoming many of the difficulties associated with traditional metering; but there are circumstances beyond the control of suppliers where the time limits may not always be appropriate.

Ofgem's timetable means that the six month limitation proposed could be implemented as early as June 2016 (which is also when P302 is due to be implemented). We question whether this is an appropriate timescale for the following reasons: it is unlikely that suppliers will begin to install SMETS 2 Compliant meters in large numbers before August; and when they do begin, the technology will be new and may throw up unanticipated difficulties; if the Data Communications Company (DCC) has commenced operating by that point there will be unknown confidence levels as it will be unproven in a live environment; should the DCC not have started for any reason there will also be difficulties in putting in place the proposals.

The absence of an impact assessment by Ofgem for the proposals has meant we have been unable to give sufficient consideration to the options for the implementation timescales; a longer timescale would give suppliers with more than one customer service system the opportunity to make any necessary changes and developments. This is a practical consideration caused by the transfer of data retrieval from supplier agents to the DCC. Suppliers would have to make arrangements for the smart back billing proposals to apply before and after the transfer. If the smart back billing proposals were to take effect after the DCC go live there would be a greatly reduced risk of error and disruption.

There is no compelling reason to implement new arrangements before the DCC operates successfully; it would be more efficient, prudent and minimise disruption to customers if Ofgem delayed the licence condition until the industry arrangements for the switch to SMETS 2 Meters has had time to stabilise after the transition to the DCC. Given the complicated nature of the back billing change, in particular in relation to direct debits, the unprecedented volume of customers involved in smart rollout and the complexity of the smart changes, there could conceivably be a risk to the Smart implementation programme. It will also be the case that although suppliers may have systems to identify back bills, the exceptions will need individual, manual review. The six month limitation and the mass installation of smart meters will lead to many more manual checks.

The factors above lead us to believe that it would be more reasonable and remove the risk of compromising the programme if the six month smart billing limitation were delayed until a period (for example, twelve months) after the DCC has been shown to be operating satisfactorily.

Energy UK's Smart Billing Commitments for domestic consumers, to which npower had signed up, proposed an initial nine month back billing period. This was largely to help overcome the issues outlined above. If Ofgem goes ahead with the six month limitation in the timescale

proposed, it is unlikely that npower will proceed to adopt the nine month back billing period as an interim measure, as operationally this would be duplicating system changes.

### **Implementation proposals**

It is difficult to envisage how the current voluntary commitments for domestic and micro business back billing would continue if there were to be also a back billing licence condition specifying the duration of a back bill. With regard to the domestic billing code in particular, any audit shortcomings might lead to enforcement action and therefore a double jeopardy. Suppliers would be unlikely to want to be bound by both; and as a result we could foresee the decline of the code, which would be unfortunate as we believe it has been effective.

In addition, Ofgem needs to find a way of extending the code to cover all suppliers at the same time as introducing a new limit. One way of doing that would be to include a more general licence obligation on all suppliers to publish a code that included a back-billing period, set by Ofgem following consultation, and a requirement for an independent audit.

### **Direct debits**

There would be unintended consequences of including direct debits within the back bill limit.

The point of fixed direct debit is to smooth and regularise payments over the year in order to take account of seasonal variations and to give customers certainty of monthly charges. Many domestic and non-domestic customers prefer to pay by fixed direct debit as it gives them a known monthly cash flow that helps them budget more effectively. Under the proposals this certainty would diminish. Suppliers would seek to reassess, taking into account the six month back bill limit. Smart meters do not help to fix a monthly payment more accurately as they cannot predict variations in usage.

Many microbusiness customers have one year fixed-term contracts and many switch to new suppliers regularly. A customer having an advanced meter in place does not give a supplier gaining that site any information about the customer's previous or future consumption. There will still be a requirement to use some form of estimate for calculating future consumption. This would not present any problem if customers only wanted to have flexible direct debits, but many microbusinesses value fixed direct debits, with a reconciliation at the end of the contract.

In practice, Ofgem's proposals if implemented would probably lead to a reassessment every three or four months, as it takes time to revise consumption and issue new bills. Fixed direct debit will then become in effect a variable direct debit, which is not what many domestic and business customers want. The change would not be in customers' interests and would in our opinion unreasonably limit customer choice in relation to payment method. At the same time, from a practical perspective, we strongly question whether this level of oversight of accounts would actually be manageable. It is certainly not the way most suppliers operate and would provide an additional pressure leading to the disappearance of fixed direct debit.

The proposals might also have other unanticipated consequences: they would close off any future flexibility of payment frequency – 6 monthly, 12 monthly, for example – for customers who

wished to pay in lump sums rather than monthly. For non-domestic customers, fixed direct debit can be used to enable supply to customers with a poor credit score; therefore the disappearance of this method of payment would remove one of the means that these customers can use to obtain or move supply.

On a final point, it is important that any accrued debt, already billed, and set up as part of the direct debit arrangement, should not be included in these proposals. We are assuming this is the case, but would welcome confirmation.

### **Customer fault**

The concept of customer fault in the context of back billing is well understood, if not always easy to assess. Industry issues are generally included within the 'customer not at fault' category. However, the smart world introduces a new, unknown player into the mix: the DCC. At this stage we have no experience of working with the DCC or knowledge of the reliability of its systems. In principle we should not be indemnifying the DCC for any failure; therefore, at least for the interim, the arrangements must ensure that the 'customer not at fault' principle is maintained at the DCC's risk. It is for further consideration exactly how this should be achieved.

### **Proposed publication of performance data**

npower will of course wish to be closely involved in discussions around the form of the data publication.

We are generally supportive of publishing performance data to give customers clearer information. As with all such new indicators it would be helpful if there were to be sufficient notice to enable us to make changes; and a pre-run of the figures to assess any issues prior to go live. We would also wish to see a review period following implementation to measure the added value for consumers.

However, as with the implementation proposals there is a timing issue. Suppliers will be addressing rollout in different ways and at different speeds; therefore, there may not be a like-for-like comparison at least to begin with. It is important to consider how to address this.

Whatever the format, we are firmly of the view that if there is to be reporting of this sort it should be mandatory for all suppliers irrespective of size.

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