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Dear Bart

Smart prepayment 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.

In summary, we generally support your proposals, except for one of the data proposals which is covered in Question 8. Our concerns relate largely to the anticipated development and cost, as described in our response.

Please contact me if you have any questions.

Yours sincerely

Gerald Jago
Regulation

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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)?

Yes.

npower has been closely involved in the development of the industry solution to leave prepayment meters in credit mode at point of change of supply. We consider this to be the most effective way of ensuring that supply is maintained.

We also intend to participate in industry developments to operationalise the process, including dealing with 'worst case' scenarios. Of course, we are already looking at how we can enhance the customer journey.

Question 2: Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting?

Yes.

We understand the wish to collect the data proposed and have no objection provided the information requested is descriptive in form. We suggest a review period following implementation to measure its usefulness.

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?

Yes.

As for question 2.

Question 4: Do you agree with our assessment on those areas where we do not propose to take any further action.

We agree.

At the same time, we note your concerns about certain scenarios and will seek to address these through the processes and communications being designed.

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?

Yes.

Question 6: Do you agree with our proposal to update the Safe and Reasonably Practicable Guidance?

Yes.

We have no objection in principle. You may wish to review the proposed new wording to ensure that it is clear suppliers should be proactive in assisting customers to make a decision based on the advantages and disadvantages of payment type.

Having to assess and make a judgement on the continued likelihood of the availability of alternative top up methods will not be easy. This may lead to a very cautious approach and therefore limit the number of vulnerable customers able to use prepayment as a preferred choice.

It is also worth noting that although not having to offer payment in cash in the circumstances described, suppliers with more than 50,000 customers would always need to have that option available to be able to comply with the licence condition.

Question 7: Do you agree with our proposed amendment to the Safe and Reasonably Practicable Guidance?

Please see the answer to Question 6.

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?

No.

We anticipate that provision of the data would require costly and time-consuming system changes to create a means of capturing the information at a time when we are engaged in numerous other key changes. If it is the intention to monitor customer behaviour and demand for non-cash prepayment then that could be achieved in other ways, such as customer surveys. The data proposed will in any case be inconclusive because customers will be able to choose to use any alternative top up methods available.

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?

No.

Please see the answer to Question 8.

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.

Potential risks include the cost to serve increasingly fewer customers on traditional metering, leading to higher prices for those customers; suppliers should be encouraged therefore to show a balance between smart innovation and the service offered to their traditional prepayment customers. A reduction in demand could also mean that there will come a time when PPMIPs/NSP seek to withdraw their traditional service completely as it will no longer be commercially viable.

In addition, there is no obligation for a PPM customer to have a smart PPM meter, meaning that traditional metering would have to endure for longer than desirable. Conversely, differentials in pricing and services between smart and traditional PPM metering could help increase the uptake of smart by allowing customers to see the value in smart metering.

Please also see the answer to Question 12.

Question 11: Do you agree with our proposed approach to micro businesses?

We agree.

Without evidence as to a clear reason or need it would not be proportionate to extend existing regulatory arrangements to micro businesses.

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

There may be areas of the country where it will not be possible because of signal issues to deploy smart meters; and there will inevitably be customer refusals. Both these will mean a need to maintain a traditional infrastructure, which in turn will escalate the cost to serve for those customers remaining in traditional systems.

The industry will need a co-ordinated and consistent response, centrally led. There may also need to be a regulated phase out of the service. During phase out it will be important that costs to customers are maintained at an affordable level and there may be a role for Ofgem here.