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Dear Jeremy,

Open letter on back-billing: ScottishPower comments

Thank you for Ofgem's open letter launching its project on consumer back-billing and the opportunity to comment on Ofgem's minded-to position at this early stage of the work.

Advantages of a self-regulatory approach

ScottishPower is a fully-engaged signatory of the Energy UK Billing Code and as such is committed to the current voluntary back-billing limit of 12 months. We believe the development of this approach from its early inception to date represents a good example of the consumer protection benefits that can be achieved by self-regulation, while still allowing the flexibility needed to address subtleties in process interactions¹ that prescriptive regulation may not achieve.

It is disappointing therefore that Ofgem does not consider self-regulation to be sufficient to address its back-billing concerns going forward. We think there could be a case for re-visiting this assessment, and it may be that a wider group of suppliers could be encouraged to sign up to a self-regulatory approach, given the benefits of the existing code in providing a sensible framework for addressing complex back-billing issues..

Principles-based regulation better than prescriptive

If Ofgem concludes that back-billing protections cannot be delivered through self-regulation, careful consideration should be given to what any supply Licence requirement might look like. We know that Ofgem is working hard to remove much of the prescription from the supply Licence, so moving towards a mainly principles-based licence regime, and we think that this could be a good candidate for principles-based governance. In particular, this would facilitate dealing with the many intricacies that are currently handled within the self-regulation framework, without excessively detailed prescriptive regulation.

A possible approach would be to use narrow principles to set the intended customer outcomes (for example that consumers should not face lengthy back-bills where suppliers are at fault), and allow suppliers to determine the appropriate policy approach within that principle, provided that this could be justified as being fair and appropriate.

¹ For examples, please see the Energy UK document which provides more details for consumers around how back-billing will operate in practice: <http://www.energy-uk.org.uk/publication.html?task=file.download&id=5220>

Smart back-billing time limits

We share Ofgem's previously-stated view that smart meters should ultimately reduce the need for back-bills, by providing reliable, accurate meter readings on which all bills should be based. For smart meters which are providing daily readings and for which the initial smart bill has been issued and settled by the customer,² we are therefore planning to move to a six month time limit before the end of 2017. In the longer term, we expect that back-billing should be removed for the majority of consumers. However, this relies on suppliers being consistently able to obtain and bill on reliable readings from the meter.

Currently we understand that the majority of meters being installed are SMETS 1 smart meters. These meters are not generally interoperable at present and therefore the vast majority will not provide meter readings on change of supplier, as the new supplier will not be able to operate the meter remotely. Looking forward, SMETS 2 smart meters will, when interacting properly with the DCC, give suppliers reasonable confidence that we will be able to obtain the readings necessary to bill accurately.

Again, our preference would be to deliver a reduced back-billing time limit for appropriate smart meters on a self-governance basis. However, should this prove too difficult to achieve, we again recognise that a supply licence condition may be necessary to ensure the appropriate protections for consumers. Again, we would suggest implementation through narrow principles which would recognise the infancy of the technology and processes in question and avoid excessive prescription.

In particular, while we are pressing ahead with our installation plans and the appropriate systems to support these (and the DCC's processes) we do not yet have the operational confidence that these processes will function as expected. This is especially true for SMETS 2 meters, where the business and industry processes are considerably more complex than those for SMETS 1, and which so far remain to be fully tested. Any proposed supply licence obligation must recognise and account for this.

On that basis, we would suggest that a reduced back-billing limit should apply only:

- **after** the first bill on the smart meter has been issued using the smart reads and settled by the customer; **and**
- **if** the smart meter is functioning as expected³ and a supplier is receiving consistent and reliable daily readings.

and that the limit should otherwise remain at 12 months.

We look forward to the next stages of Ofgem's project in this area. In the meantime, we would be pleased to discuss any of the points discussed above with you in further detail.

Yours sincerely,



Rupert Steele
Director of Regulation

² I.e. any outstanding balance has been paid by the customer, in accordance with their payment method. For Direct Debit customers, this would assume that the outstanding balance would be recovered going forward within the customer's Direct Debit payment, as normal.

³ By 'functioning as expected' we mean that the meter is interoperable. For SMETS 1 meters, this would mean that the meter is able to be operated on a smart basis by the new supplier following a change of supply. For SMETS 2, this means that the meter is providing accurate readings and the DCC is providing these to the relevant supplier on a timely basis.