



**Consumer  
Focus**  
Campaigning for a fair deal

# **Consumer Focus response to consultation on smart metering for electricity and gas**

**August 2009**

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Consumer Focus is the independent champion for consumers in England, Wales, Scotland, and for postal consumers in Northern Ireland. We are the voice of the consumer and work to secure a fair deal on their behalf. We were created through the merger of energywatch, Postwatch and the National Consumer Council (including the Welsh and Scottish Consumer Councils). The new approach allows for more joined-up consumer advocacy, with a single organisation speaking with a powerful voice and able to more readily bring cross-sector expertise to issues of concern.

## Overview

Consumer Focus supports the introduction of smart metering as a mechanism to end estimate and inaccurate bills and as a tool to help consumers better manage their energy consumption and reduce their carbon footprint. Over time smart meters should help to deliver a downward pressure on retail prices, particularly in the case of prepay customers. But this will depend on suppliers realising the expected cost savings and passing at least some of these savings onto consumers. Smart metering offers real opportunities to deliver social benefits such as remote health services and telecare which can improve the quality of life of vulnerable consumers, and better targeted assistance at those struggling to afford their energy bills. It could also enable the introduction of energy 'trickle meters', for those in financial difficulty, which restrict consumption but provide a 'fuel life-line' as an alternative to self-disconnection.

While we welcome many of the smart metering proposals in this consultation, we have real concerns that without clear leadership and the right roll-out strategy and functionality that many of the potential consumer benefits will not be realised. Early resolution of the technical debate on interoperability is very important to consumers. Achieving adequate levels of interoperability now will allow maximum flexibility for consumers later, including with home automation, social assistance and telecare services. Important customer safeguards will be needed from the outset, including to protect low income and vulnerable consumers. We welcome steps to date to address concerns about data protection and consumer privacy, and the accessibility of real-time information, but more needs to be done.

The smart meter roll-out will entail considerable cost. The benefits and burdens should be proportionately and fairly borne. We would question the automatic assumption that consumers should foot the bill. We would seek clarity on how much, in pounds per year, it is expected to cost consumers and precisely how and the rate at which any cost will be transferred. Whether for example is it expected that any costs will be spread across the customer base or transferred at the point of installation, over ten or twenty years. Transparency will be needed to ensure that any costs charged to consumers are fair and any savings to suppliers resulting from smart meters are passed on to consumers. Consumers cannot be expected to sign a blank cheque for the smart meter roll-out. Their financial liability must be limited and a series of checks and balances put in place to ensure quality and efficiency at every level.

The proposal for all smart meters to be able to switch between prepay and debit options is particularly welcome. It should help revolutionise the prepay market, offering flexible payment options to all consumers and relatively cheaper pay as you go tariffs. High-level functionality will remove some of the hassle consumers face when installing micro-generation and we hope, for both gas and electricity, an end to regular visits from the meter man. As Britain moves towards a low carbon economy and growing challenges in terms of security of supply, choosing the right functionality now will help maintain the reliable energy supply that consumers take for granted.

The requirement for a separate stand alone display is an important step in ensuring equality of access to real-time information, helping to empower all consumers, regardless of income or 'buying power', to reduce their energy use. We also strongly welcome the Government's recognition of the value of a locally coordinated roll-out of smart meters. If delivered well this could help maximise consumer engagement and opportunities at a community level, enabling households to reduce their energy bills and access wider benefits.

While we appreciate that much of the discussion to date has been on technical issues, Consumer Focus believe that insufficient weight has been given to the potential consumer risk and experience of smart metering, especially in assessing the Distribution Network Model.

Much of the consumer case rests on the assumption that people will reduce their energy use as a result of real-time information, yet little reference is made in the consultation to the communications or social marketing strategy that will help realise this. The consultation states that '*easier switching between suppliers will occur*' yet without radical changes to the transfer process this is unlikely to be the consumer experience. So-called '*improved services such as a wider range of tariffs and incentives*' could increase choice but add a level of complexity that hinders switching decisions. 'Off-peak' tariffs could leave those social groups forced to use 'on-peak' tariffs struggling to pay their bills. It is even unclear if consumers will still have to wait in for the gas meter man, should two yearly safety checks continue to be needed.

**Government and Ofgem must refocus and put consumers at the heart of the decision making process. Consumer Focus calls for the following next steps:**

1. Government and Ofgem should carry out a comprehensive assessment of the potential consumer risks and opportunities resulting from smart metering and develop a strategy to ensure the best outcome for consumers. This should be a cross-departmental and a cross-nation approach including the Department of Health, the Department for Business Industry and Skills (BIS), the Welsh Assembly Government, the Scottish Government, consumer groups and other relevant bodies. It should include a review of the suitability of existing protections, particularly around debt and disconnection, sales and marketing, as well as data protection and privacy, and the impact of multiple rate tariffs. This is urgently needed as tens of thousands of consumers already have smart meters and this number looks set to increase exponentially before the official start of the roll-out.
2. Ofgem and Government with consumer bodies should develop a set of transparent metrics and where appropriate regulation to ensure:
  - The overall costs of the roll-out are efficiently and reasonably incurred
  - High customer service and fair retail market practices, prior to, during and after roll-out

- Any costs passed on to consumers are fair, communicated as soon as possible, and that any operational savings resulting from smart metering are also reflected in energy tariffs

3. Outline steps to protect all consumers including those on low incomes from the financial risk and impact of the smart meter roll-out.

4. Prioritise the development of the communications and social marketing campaign which will accompany smart meter roll-out, including linked to this, the delivery activity on the ground. This should be an ongoing campaign at both a local and national level that runs prior to, during and after smart meter installation, and will help maximise the benefits to consumers. We welcome the commitment in this consultation to work with Consumer Focus and other consumer organisations in this process but there should also be coordination between UK Government and the devolved nations, including representation from bodies in these countries.

## Section 2: Proposals for the domestic sector delivery model

### Q1 Do you have any comments on the Government's preference for the Central Communications model?

Consumer Focus appreciates the challenge faced by Government in deciding upon a model for smart meter roll-out but has general concerns about the lack of clarity around precisely how the central communications model would operate.

We would welcome the proposed model if the following are delivered:

#### Value for money for consumers/equity:

- It is ensured that competition in metering does not hinder the ability to roll-out smart meters in a coordinated way at community level, which we believe is essential to realise the full benefits of smart meters to consumers.
- A transparent set of metrics and where appropriate regulation are implemented to ensure:
  - The overall costs of the roll-out are efficiently and reasonably incurred
  - Any costs passed on to consumers are fair and that any operational savings resulting from smart metering are also reflected in energy tariffs.  
Transparency will help to ensure not only fairness in pricing practices but drive further efficiencies in smart metering
- Steps are taken to mitigate the impact of any resulting price rises on low-income consumers
- The model creates an initial and sustainable downward pressure on costs and upward pressure on service. For example, the consultation indicates that the cost of stranded assets will be recoverable through the consumer yet the incentives to mitigate our exposure to asset write-off have yet to be clarified
- Mitigation activities are needed to ensure that the communications technology chosen to support GB-wide smart metering is not subject to premature obsolescence and to limit the negative financial impact to consumers of 'technology lock-in'
- A mechanism is needed to ensure that small suppliers are not discriminated against in terms of access to metering and installation resources. Also that those who have already rolled out smart meters are treated fairly (see Section 4)

Consumer Focus urges Government to take this opportunity to help reinvigorate the energy retail market. Both Consumer Focus and our predecessor organisation energywatch have voiced concern over the failure of the liberalised energy market to deliver value and true competition for consumers, especially vulnerable and low income consumers. Where there is no clear consumer benefit, care must be taken not to put the 'big six' energy companies at a competitive advantage and further entrench their position. The governance structures for any monopoly central communications provider must be strictly independent. Any tendering process must be robust and transparent to drive cost efficiencies where competition isn't possible.

#### Customer service/ease of use:

- Interoperability issues must be fully resolved so that consumers are not faced with compatibility frustrations as the market for smart applications develops. Consumers should not have to change meter, in-home communications or

display to change provider. Also it must be ensured that new technologies do not interfere with existing applications

- An estimated thirty per cent of households have separate providers for gas and electricity. These consumers should not have to incur the added disruption of two visits to change their meters
- No sales activity should take place alongside the initial roll-out of meters. The initial visit should focus on providing high-quality customer service and independent and trusted advice and support

### Customer choice and access:

- The communications network which is established to support electricity and gas metering should provide connectivity to support additional 'value added services' such as health services and telecare which could offer real benefits to vulnerable consumers
- Smart metering should enable the development of innovative services, not just for energy but beyond gas and electricity functionality, as part of a whole market approach. There is no explicit recognition in the consultation of value-added services to householders, business and society. Data rates and frequency of communication and the infrastructure put in place should support various services
- There should be not just '*supplier flexibility over the consumer proposition... and differentiated service offerings*' as the impact assessment states, but access for a whole range of new entrants to offer services to consumers
- One option suggested by Baringa is that where smart meters are installed prior to the central communications provider being operational, that the supplier should retain an option to either opt-in or opt-out of using the services from the central communications provider. While we welcome provisions to protect small suppliers already rolling out smart meters in this market, we have concerns that consumers in early receipt of smart meters will effectively be locked into their supplier. This could become a particular problem should one of the 'big six' decide to aggressively roll-out smart meters before the 'official' start date. While we have some sympathy with the rationale behind the communications provider becoming a provider of last resort, we would seek assurances that if this concept is developed that it does not:
  - result in added complexity and cost, for example through running parallel processes and governance structures
  - hinder consumers ability to switch not just energy but in-home smart applications
- All consumers should, within reason, have access to the full benefits of smart metering even if they are in 'hard to access' properties or locations, or low density areas. For example, the EDRP trials reported particular problems in installing communications in properties where the meter was at a distance from the real-time display as is common with high rise flats. These consumers should still have equal access
- There should be no question of consumers being forced to take both fuels from a single supplier despite the commercial drivers to switch consumers to dual fuel

### Customer privacy and protections:

- We welcome Government's recognition of the importance of establishing data access and data protection issues as part of the preparation of this roll-out (see Question 7). A primary focus of the central communications provider will be ensuring the security of what will become increasingly sensitive personal energy data. Whoever manages this information should not only be experienced and qualified to handle security and privacy issues of this scale but also trusted and viewed by consumers as credible. This is essential to help mitigate concerns about 'big brother' meters and fears over data loss or theft. The commercial and reputational risk should sit with the companies responsible as an incentive for them to get it right first time.

### Sustainability and security of supply:

- The model should be developed closely with the network operators and wider players (eg in the water, communications and transport sectors) to facilitate the development of smart grids as we move to a low carbon energy market. The communications system should be easily adaptable to incorporate new technology and the body's governance processes must not prevent or delay introduction of innovation needed to deliver smart grids.

### Cross-Government working – Digital Britain and health services:

- Consumer Focus has concerns that the central communications approach seems to have been conceived in isolation from Digital Britain. Digital Britain already calls for the national availability of broadband in every home.
- With a small amount of additional extra functionality smart meters could also help deliver significant cost savings in relation to wider Government health strategies via the use of telecare-type services and an improvement in the quality of life of many consumers. We would urge DECC to work with BIS and the Department of Health to explore these opportunities.

## **Q2 Do you have any comments on the analysis and conclusions on the delivery model contained in this consultation document, the reports compared by Baringa Partners, or the Consultation Impact Assessment?**

Consumer Focus has overall concerns about the relative lack of weighting given to the consumer risks and experience in this analysis, in particular with regard to the Distribution Network Model. For example, it is unclear which of the models best lends itself to provision of data security or limiting the financial risk specifically to consumers. In the case of the latter the assumption is that the market works perfectly with both costs and savings passed on to consumers, yet experience to date suggests this doesn't always happen. Contrary to the recommendations of the Treasury Green Book<sup>1</sup> and BERR's 2007 impact assessment<sup>2</sup> little weighting appears to have been given to different social groups and the fuel poor. An ongoing communications and social marketing campaign will be needed alongside the smart meter roll-out if consumers are to achieve the energy

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<sup>1</sup>Green Book, Appraisal and Evaluation in Central Government, HM Treasury. P. 24  
[http://www.hm-treasury.gov.uk/media/9/C/Green\\_Book\\_03.pdf](http://www.hm-treasury.gov.uk/media/9/C/Green_Book_03.pdf)

The Green Book states that impact of policy proposals on individuals well being according to his or her income, health, location should be explicitly stated and quantified wherever feasible.

<sup>2</sup> Appraisal of Costs & Benefits of Smart Meter Roll-out Options. April 2007. Mott MacDonald. BERR. Para 8.2. P.81  
<http://www.berr.gov.uk/files/file45997.pdf>

consumption savings mentioned in the assessment. We would seek clarification on what funds have been allocated for this and precisely who will undertake it and pay for it.

### Switching and tariffs

We would query the assumption that ‘overall smart meters should enhance the operation of the competitive market by improving performance and the consumer experience’. While cost savings to suppliers from easier switching should be passed on to consumers, a rise in sophisticated tariffs may lead to greater confusion and complexity for consumers, hindering beneficial switching decisions. The consumer experience of switching will not become easier without radical changes to the transfer process and if suppliers chose to differentiate on high-quality displays or energy efficiency packages, they may seek to ‘lock-in’ consumers to longer term contracts to recoup the costs over a period of months or even years – as is the case with mobile phones (see also Question 7).

### Time of use tariffs

While ‘a shift of energy demand from peak times to off-peak’ should benefit some consumers we are concerned there has been no consideration given to the potential detrimental impacts of time of use tariffs. Ofgem’s recent discussion paper, *Can energy charges encourage energy efficiency?*<sup>3</sup>, states ‘different pricing structures could, in some cases, lead to negative welfare effects as there are significant differences across income groups in price sensitivity and the affordability of substitutes, including energy efficiency measures.’ The assumption is that consumers will benefit from lower cost off-peak pricing but the reality may be that some groups such as the working poor, who are unable to switch their energy patterns, or those with little discretionary energy load (eg don’t have dishwashers, or tumble dryers that they can put on during off peak periods) will effectively end up paying relatively more.

Having reviewed the delivery models we also question the basis for some of the assumptions:

- The proposition that within a fully competitive model there will be two real-time displays in any one home rather than one – Consumer Focus supports a single display and believes this to be technically feasible
- Based on historical experience, the assumption that the cost of metering assets will fall by only one percent per annum
- The logic that the centralised communications model involves ‘less reliance on establishing technical interoperability standards upfront’

### The business case

While we appreciate that it is difficult to establish all the potential operational cost benefits that can be derived from such a large deployment of smart meters, we would question why there is no apparent recognition of the improvements in trading, linking increased knowledge of consumption patterns with energy wholesale purchasing, no reference to improvements in working capital and cash management that will result from accurate billing, and nothing included about the cost savings resulting from reduced rebilling and reminders, and simplified bill collection. Navetas estimate this to be in the region of £1.80 per installed meter per annum.

Consumer Focus strongly questions the assumption that there is still only a business case for 20-30 per cent of meter stock being replaced with smart meters. We believe that

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<sup>3</sup> Ofgem. *Can energy charges encourage energy efficiency?* A discussion paper to prompt debate. July 2009. P.3

the business case for smart meters is becoming increasingly strong, as technology advances and understanding of utility cost benefits grows and would point to new energy suppliers such as First Utility and Utilita who are currently deploying smart electricity and gas meters as an indication of this.

The distribution network model (DNM) has also not been given equal consideration. It is difficult to assess if this model best meets consumer needs due to a lack of information.

### **Q3 Do you agree the Central Communications model effectively facilitates 'end to end' management of the electricity networks system needed for smart grids?**

There is very little clarity around what a smart grid will actually look like. But 'end to end' management would not be possible until consumers have remotely controllable appliances installed in their homes. Products compatible with smart metering will need to be developed and sold to customers before there would be any significant opportunity for demand side management of specific devices. There will need to be clear consumer protections and protocols put in place relating to the use of appliances for demand side management before this develops. Key issues must be addressed. Who will turn thermostats down or fridges off? Can consumers opt-in or opt-out of schemes? When it comes to active network management in homes, what will be the hierarchy of control? Will it be network businesses, suppliers or customers who control demand side use in the home and in businesses? And how will vulnerable consumers be protected from any adverse affects of remote management? Government needs to consider the consumer protections required as part of its vision for a smart network.

### **Q4 Do you consider that the Government should adopt measures to promote coordination of roll-out at local level?**

Yes. We welcome the Government's desire to maximise local co-ordination and its recognition of the importance of this in securing benefits to consumers. There is a clear need to install smart meters in people's homes with minimum disruption and maximum customer engagement. Consumer Focus believes that the best way to achieve this is with:

- A UK Government-led central campaign and social marketing strategy developed in discussion with the Welsh Assembly Government and the Scottish Government
- A coordinated delivery and messaging campaign at a regional/local level

Central messaging is particularly important as under the proposed model any localised roll-out is likely to run in parallel with the replacement of meters up for recertification and new build installations (which accounts for approximately 40-50 per cent of the meter stock over this period). There will also be individual requests for smart meters.

Approximately three quarters of the consumer monetised benefits from smart meters highlighted in the impact assessment are said to derive from people reducing their energy use as a result of real-time information. Smart meters are a tool in helping consumers to achieve this but there will also need to be education and support available to help understand not only how to use and interpret their display but also the action they can take to reduce their energy consumption. This needs to be a rolling programme which takes place prior to, during and after the installation of smart meters. It should be dovetailed with the availability of green financing schemes and grants, so that as well as behaviour change, everyone can afford to install energy efficiency measures regardless

of income or vulnerability. Should energy prices continue to rise, it will be a particular challenge to explain to consumers why their bills continue to increase when they have reduced their energy consumption.

### Social Marketing

We welcome Baringa's suggestion that there should be a differentiated engagement campaign aimed at different customer segments but this is not enough. Government should also adopt a social marketing approach. This should not be confused with social 'advertising' which is simply the provision of messages to a particular audience. The core central feature of social marketing is its focus on understanding the consumer first. By developing a deep insight into people's lives, social marketing enables the selection of the intervention methods most likely to impact on people's actual behaviour in a sustained way. The driving concern of social marketing is to find the most effective mix of interventions that will remove barriers and provide incentives for the target audience to adopt or maintain specific behaviours.

### Responsibility for delivering behaviour change

Given the Government's ready acceptance that costs will be passed on to consumers, Consumer Focus feels they have a particular responsibility to ensure that opportunities to change behaviour and reduce energy bills are maximised. The proposed model does not, in its current form lend itself easily to this approach. Careful consideration will need to be given to precisely whose responsibility it will be to help consumers change their behaviour, the incentive mechanisms, and how this will be delivered. DECC should explore, as suggested in the mitigation activities of the Baringa report, 'the establishment and ongoing management of a government or third party organisation mandated to ensure customer engagement, and as such, demand benefits, persist throughout.'

Energy suppliers are not best placed or arguably willing to take the lead on a community roll out or helping consumers to change behaviour. The Energy Retail Association states that *'it is difficult to envisage how suppliers alone could lead any form of co-ordination under what is fundamentally a competitive meter installation approach in the central communications model.'*<sup>4</sup> Despite Government incentivising suppliers to provide energy efficiency services, it is also clear that, contrary to the assumptions in the Baringa assessment, consumers still do not trust energy companies to give them advice on how to cut their energy bills and go green<sup>5</sup>.

### Local coordination

Short of a completely independent roll-out (our preference), regional franchises or the introduction of the distribution network model, which are arguably all better suited to this approach, Consumer Focus therefore makes the following initial suggestions to maximise the benefit to consumers:

- Oblige suppliers to participate in a door by door street by street strategy, possibly similar to that used by Warm Zones<sup>6</sup> where local authorities, suppliers, business and different community players, as well as funding from different sources, are brought together – perhaps through a Green Zones or Smart Zones scheme. It is crucial that the roll-out builds on existing schemes

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<sup>4</sup> Energy Retail Association's newsletter 'Smart Comment' July 2009 Issue 4. [www.energy-retail.org.uk/smartmeters.html](http://www.energy-retail.org.uk/smartmeters.html)

<sup>5</sup> Ofgem Consumer First Panel. *The Future Consumer*. March 2009  
<http://www.ofgem.gov.uk/Consumers/CF/Documents1/Future%20consumer%20research%20findings%207th%20April.pdf>

<sup>6</sup> [http://www.warmzones.co.uk/c\\_welcome.html](http://www.warmzones.co.uk/c_welcome.html)

- A requirement on suppliers to work with local authorities, regional organisations, and other groups such as schools, primary care trusts and the voluntary and community sector, possibly through strategic local partnerships. This is essential to ensure common simple messaging to identify and meet the needs of specific groups, such as vulnerable or non-English speaking consumers. Also to maximise coordination with local programmes including the Government's Community Energy Saving Programme (CESP) and devolved equivalents, and other schemes that emerge through the Heat and Energy Saving Strategy (HESS)
- Jointly branded activity and communications with trusted independent local bodies. It is important to consider not just *what* messages are coordinated but also *who* says what. There is evidence to suggest that consumers are less likely to trust a supplier saying we want to install a smart meter in your home so you can pay us less money for your energy than a local voluntary group<sup>7</sup>
- Involve and incentivise local authorities via compulsory rather than voluntary climate change indicators or a public service agreement where appropriate
- Action to ensure that consumers with two energy suppliers are visited by just one meter installer. This is needed to ensure the least disruption and mess in the home.
- Facilitate creativity in approach e.g. local competitions, reward schemes, but with core messages – celebrate successes and learn from best practice
- Use accredited independent installers and advice providers
- No sales activity should take place alongside the initial roll-out of meters. This would undermine the credibility of advice and guidance given
- A dedicated consumer phone-line to handle concerns and questions quickly. In the short-term there are bound to be any number of technical problems (e.g. Installer quality, meter-malfunction, communications), billing and switching problems as smart and mechanical meters exist side by side, as well as general queries around displays, the meters and the roll-out itself. One advantage of joint-supplier branding and the competitive metering approach is the significant reputation risk should things go wrong.

Changing consumer behaviour is difficult and requires multiple approaches and innovation. Consumers will need to be taken on a 'journey' that should start with a communications campaign that is initiated some time before their smart meter is actually installed. There are many valuable lessons to be learnt from international experiences and we would urge DECC to take full advantage of these. Consumer Focus would caution against trying to achieve too much in the initial supplier visit but the delivery process should be flexible enough to provide the required level of support and information needed and wanted by consumers. Minimum engagement standards and an independent mechanism to monitor quality of service provided by suppliers will need to be established.

Whatever community or regional roll-out approach is adopted it is crucial that learning and review are built into the process.

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<sup>7</sup> Ofgem Consumer First Panel. The Future Consumer. March 2009

## **Q5 Should any particular policy considerations be taken into account in considering whether there should be priority groups for early deployment in smart meters?**

We recognise the challenges in prioritising any roll-out. In theory priority should be given to those groups where there are particular social or environmental benefits to be gained from early receipt of smart meters. Given the numbers that this approach covers (see below), in practice, a systematic regional roll-out which includes a mix of social groups is likely to be the fairest and most practical solution. It would be desirable for the model to have the flexibility to respond to requests from early adopters within a given timeframe.

Consumer Focus identifies the following groups that could particularly benefit from early receipt of smart meters:

1. Prepayment meter (PPM) customers on the assumption that:

- Smart metering will lead to cheaper PPM tariffs as costs to serve reduce (though this may not be the case for all consumers such as those on social tariffs)
- They will benefit from a wider range of prepay top up options as with Oyster Cards or mobile phones
- The cost of rolling out smart meters is spread across the entire customer base (rather than paid for at the time of installation) so consumers are not penalised by the comparatively high cost of early installation and that suppliers offer tailored services which can benefit prepayment meter users eg, emergency and family friendly credit

2. Certain vulnerable consumers might also be a priority, given that these users could benefit from telecare and health related services - early moves here could help to kick start this market.

Government should take care that smart meters are not stigmatised as 'something for the poor'. This is particularly the case as installation in low income areas will no doubt be a commercial priority for suppliers as they seek to minimise their exposure to debt. This could have a negative effect on overall engagement – particularly if it results in media stories about consumers being remotely disconnected by their energy provider or switched to prepayment against their will (see Question 7).

3. High energy users as they can potentially deliver the most carbon and energy savings (helping to manage demand at a potential crunch time in both security of supply and carbon emissions). Large cost savings could also generate positive media coverage and help to promote buy-in. While suppliers will naturally prioritise high-income consumers given the potential market for smart gadgets and bespoke packages and their low debt risk, Government will need to put incentives in place to ensure that this results in energy reduction and that any new appliances don't increase energy use.

4. Consumers in hard to treat properties (without mains gas or in solid walled dwellings) Consumers in rural areas (especially those without mains gas) may be well placed to benefit from micro-generation and low carbon technologies while those living in hard to treat properties are less likely to be able to use traditional energy efficiency measures such as cavity wall insulation. For them, behaviour change, facilitated by smart meters may well be one of the few options available to help them reduce energy use.

Ofgem will need to monitor the roll-out of smart meters very closely – in terms of groups of consumers targeted under the competitive model and any changes in retail and marketing behaviour that result.

Those with dynamic tele-switching meters may not be able to have a smart meter until fully active demand management systems are put in place (though arguably, these customers should be a priority for smart grids).

Lastly, a mechanism is needed to ensure that there is equity of roll-out across the nations and co-ordination and cross-working between UK Government, the Welsh Assembly and the Scottish Government.

**Q6 Do you have any comments on the merits of alternative approaches under which electricity and gas network businesses take on responsibility for aspects of smart metering?**

Consumer Focus is disappointed that equal consideration has not been given to the Distribution Network Model (DNM). We recognise that any move away from the central communications model could result in additional delay but would rather that a proper assessment was carried out at this stage.

The initial analysis suggests that the DNM model could offer real benefits from a consumer point of view. For example:

- This approach best lends itself to a coordinated regional roll-out and the efficiencies and cost savings that could result
- Separation of supplier marketing activity and distributors' roll-out activity maximises customer buy-in and trust
- There is arguably more transparency and regulatory oversight in relation to costs and savings passed on to consumers and potentially less financial uncertainty
- Industry could still innovate and differentiate around smart applications providing consumers with choice
- It may be easier to manage and develop a smart grid to achieve government aims of security of supply and carbon reduction
- This could potentially provide small suppliers with fairer access to metering assets

While we recognise that there may be practical difficulties associated with re-regulating metering, European law does allow for metering to be a regulated activity. We would also strongly question the assumption that competition in this area has led to any significant benefits for consumers and would point to the example of the Netherlands where following the failure of competitive metering, distribution network operators were handed responsibility for the smart meter roll-out. Given that Ofgem's review of competitive metering has been deferred, it is difficult to quantify with any certainty the benefits to consumers. It is Consumer Focus' view however that there have been neither significant technological innovations nor tangible reductions in cost for consumers as a result of deregulation of metering.

## Section 3: Proposals for the domestic sector: functionality

### **Q7 Do you agree with the functionality proposed for electricity meters? Please explain your reasons and give evidence for your comments.**

We believe that all consumers should receive smart meters with the same minimum standards to help ensure equal access to the potential benefits of smart metering.

The functionality should enable the following:

- Accurate billing and fewer complaints in the long-run. Inaccurate bills are the cause of 53 per cent of energy complaints recorded by our sister organisation Consumer Direct<sup>8</sup>. Functionality should reduce problems associated with estimate, inaccurate and late bills, and the knock-on effect where people find themselves in debt
- Real-time information about energy consumption delivered to an in-home display and other devices. This will help empower consumers to regulate and reduce their energy bills and carbon emissions, and budget more easily
- Relatively cheaper tariffs and increased convenience for prepay customers. Costs to serve should decline and switching between payment methods become easier and cost free. A greater range of credit top-up options should become available eg via phone or internet as with mobile phone top-ups
- Prepay should be easily available for all consumers
- More cost-reflective pricing but with positive discrimination where appropriate to protect vulnerable and low income consumers
- More payment and billing flexibility: eg introduction of variable direct debit (though we would expect to continue to see fixed-rate direct debit as it helps consumers to budget across the seasons); easier switching between payment methods
- Meets all the metering needs of consumers who have or want micro-generation so they don't need to switch meters should they wish to install or run this kind of technology
- Ends visits from the meter reader by enabling remote management of meters and monitoring of energy use
- Easier and quicker switching by allowing for more accurate and efficient data processes and transfers
- Ease of moving home as incorrect meter identification will be eliminated
- Reduced energy costs resulting from greater operational and other efficiencies across the supply chain

### **We seek assurances from Government that this functionality and the associated communications networks will also:**

- Enable load limiting to take place. So-called 'trickle meters' could restrict the amount of energy available for those in financial difficulty so the consumer could just use the lights and the fridge (for example) as an alternative to self-

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<sup>8</sup> Consumer Focus monitoring figures for Consumer Direct as a result of our Memorandum of Understanding – Figures for Oct 2008 to February 09. This figure excludes general information requests about energy.

disconnection (subject to appropriate consumer protections). This could be done at negligible extra cost and should be included in the functionality.

- Allow for the use of telecare and remote health services which could help vulnerable consumers. This has been proven to deliver real benefits both in terms of enhanced quality of life for consumers and significant cost-savings in delivery of health and social services<sup>9</sup>. For example, their use could enable warnings being sent to carers or suppliers should consumption patterns drastically change or consumption cease altogether; room temperatures monitored and warnings issued if levels fall below that which is safe for health and comfort.
- Via appropriate monitoring of energy use it should be possible to help prevent debt and almost immediately target assistance at those who are self-disconnecting or self rationing to a worrying degree.
- While variable direct debit should become an option, for those who prefer fixed rate direct debit as a budgeting tool to help them spread the cost of their energy bill across the seasons, smart meters should enable the monitoring of actual consumption and flexible account management. This will ensure consumers do not pay more than they need to or end up in debt. Hence addressing the cause of Ofgem's January 2009 investigation into direct debit.
- Where-ever possible allow for growth in function and integration with other home devices as smart grids develop, leading to a greater consumer choice in terms of products and services.
- Enable network operators to manage demand as efficiently and cost-effectively as possible as we move towards a low carbon energy market and growing challenges in terms of security of supply.

Government and Ofgem should carry out a comprehensive assessment of the potential consumer risks and opportunities resulting from high-level meter functionality and roll-out and develop a strategy to ensure the best outcome for consumers. This should be a cross-departmental and a cross-nation approach including the Department of Health, the Department for Business Industry and Skills (BIS), the Welsh Assembly Government, the Scottish Government, consumer groups and other relevant bodies. This is urgently needed as tens of thousands of consumers already have smart meters and this number looks set to increase exponentially before the official start of the roll-out. It should include the following:

#### 1. **Self-rationing and self-disconnection**

More research is needed to assess if access to real-time displays showing fuel costs will cause some low income households to ration fuel or self-disconnect at the expense of their health and comfort or whether with the confidence of accurate cost data, consumers will cut back less. We hope that the Energy Demand Research Project (EDRP) will help inform this discussion. The current extent of self-disconnection and self-rationing is largely unknown. Government should capitalise on the real opportunity that smart meters present to better

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<sup>9</sup>. Evaluation of the telecare development programme in Scotland. York Health Economics Consortium at York University. <http://www.jitscotland.org.uk/action-areas/telecare-in-scotland/telecare-publications/>

understand this problem and target and develop support services for those in need.

## 2. **Debt and disconnection**

Ofgem needs to review the legislation, licence conditions and codes of practice governing debt and disconnection practices in the light of smart meters. In theory smart meters could make it physically easier and cheaper for suppliers to disconnect consumers. Debt and disconnection licence conditions and protocols will have to be reviewed and strengthened so they provide at least the same level of protection in a world of smart meters as they do today. Similarly robust safeguards must be put in place to stop suppliers from automatically switching consumers from debit to prepay without their consent despite the commercial drivers should they fall into financial difficulties or are considered a high debt risk. Otherwise this will become a de-facto way of disconnecting consumers who are unable to afford their bills. We urge Government to investigate the potential for load limiting for those in financial difficulties as an alternative to self-disconnection.

## 3. **Data protection and security issues**

Although the existing data protection laws cover smart meters there are some important issues to resolve around data capture, use, storage, sharing and data ownership (which we believe should rest with the consumer). Consumer Focus already has real concerns that suppliers could use new systems to automatically credit check consumers and charge them energy tariffs that take into account their credit risk. While this might arguably be cost-reflective, it certainly would not be equitable with the possible result being millions of poorer consumers forced 'to pay more' for their energy. We hope that this kind of practice will not be tolerated and look forward to working with Government, Ofgem and the Information Commissioner's Office in this area.

## 4. **Innovative tariffs/marketing concerns**

As mentioned, Consumer Focus is concerned that the increase in so-called 'innovative' tariffs and energy packages, which the new functionality will facilitate, could lead to greater complexity and confusion for consumers, hindering beneficial switching decisions. It is crucial that consumers understand the implications of any new offers they commit to and can opt out easily without incurring a penalty. This is particularly the case as Baringa estimates that one in five consumers are likely to use a time of use tariff. Ofgem should be prepared to monitor sales and marketing activity particularly closely in the run-up to and wake of the smart metering roll-out. It can be expected that there will be a push to get consumers onto dual fuel arrangements and aggressive pricing strategies. Consumer Focus is aware that switching sites will have to evolve to handle more complex time of use pricing, potentially seasonal tariffs and other unusual offerings such as Denmark's 'lottery' electricity tariff. Suppliers are likely to offer rates which include energy efficiency services and smart appliances or even single energy tariffs (which give a rate for both fuels). Consumer Focus' Confidence Code will have to adapt to ensure that consumers using online switching sites are able to compare suppliers' new offerings as simply as possible. Further research is also needed into the impact of sophisticated new tariffs such as time of use, seasonal, single energy, particularly on different social groups (see Question 2).

## 5. **Barriers to faster and easier switching**

Improving ease of switching should be a financial win for consumers provided that suppliers pass on the cost savings. However, easier and faster switching won't necessarily be the experience of consumers unless further action is taken. Greater functionality will provide, in theory, for real time data to be accessed by both gaining and losing supplier at the date of transfer. This should enable the accurate closure of a customer's account with the 'losing' supplier and the creation of a new account with the 'gaining' one. However, a meter reading will still need to be agreed between the suppliers so that the same reading is used to close/open the consumer's account. Therefore, the administrative process currently used to enable this to happen will still have to be used. Much work was done during the cross-industry Customer Transfer Programme to improve the consumer experience of switching suppliers within the confines of not being able to re-write the whole complex process. It focused on the identification of correct address and the early provision of accurate data. Smart metering would undoubtedly have the ability to enhance this process, but it would require suppliers' management systems to make full use of this opportunity. It would not speed up the transfer process unless radical changes were made to the current process in general and suppliers' individual administrative systems.

Ofgem must also ensure that no barriers are put in place to prevent consumers switching from prepay back to direct debit or standard credit.

Going forward consideration will also need to be given to:

## 6. **Remote demand management**

Smart meters will allow external parties to control devices within consumers' homes that are connected to their meter eg, thermostats or fridges. While we recognise the value of this kind of mechanism to manage the grid and ensure reliable energy supplies, it is essential that consumers are given the choice of whether automation occurs and that, as stated in Question 3, robust consumer protections are put in place before this develops.

Consumer Focus looks forward to working with Ofgem and relevant parties to address these concerns.

### **Q8 Are there any additional requirements that will be needed to facilitate smart network management, efficient energy management and the development of 'smart grids'? Please provide analysis, particularly on costs and benefits where applicable**

The area this question covers falls outside Consumer Focus's remit hence we do not have the expertise to respond to this question.

**Q9 Do you agree with the functionality proposed for gas meters? Please explain your reasons and if possible give evidence for your comments**

Please refer to the comments given in Question 7. Consumer Focus supports the proposal to include functionality which will remotely enable and disable supply for all gas meters on the basis that it is a function needed to allow the remote switching between prepayment and debit. But only if any remote disconnection is strictly controlled and human rights protected. We hope that the universal nature of this function will help to open up competition in the prepay market by facilitating switching between debit and prepay and thus put a downward pressure on prices. In doing so we expect it to increase the numbers using prepay, the credit top up methods available, and reduce the stigma associated with this payment method - as with mobile phones and Oyster cards for example. As stated, we support all smart meters having valves and would have great concerns if the valve was retrofitted as needed or the functionality targeted during the initial roll-out where prepayment meters were likely to be most useful to suppliers as a debt management tool (eg areas of multiple deprivation). It would limit opportunities for competition to develop, particularly with dual fuel prepay tariffs, and in addition to not delivering the above mentioned potential benefits, assuming the costs fell on those using these meters, this would serve to increase the differential between prepay and direct debit for gas, and potentially even increase relative costs for households even when they were not using that functionality.

We would like to seek clarity on whether the meter functionality would enable a self diagnostic check so that the meter inspection periods could be lengthened beyond two years. Without this, the promised benefit of 'no more waiting to let the meter man in' would not be realised. This was one of the reasons mentioned for dissatisfaction with smart meters in the Warm Plan trials along with noisy meters<sup>10</sup>. We would urge Government to guarantee that the meters and displays are suitably quiet, especially for those living in bedsits, or small apartments where the living and sleeping space is often the same.

Lastly, as with electricity smart meters we would press Ofgem and Government to carry out further work into the implication of gas time of use tariffs. For example, encouraging rationing on a cold winters day may endanger vulnerable consumers.

**Q10 Is there significant scope for retrofitting non-valve functionality to gas meters? What are the costs and how many meters are capable of being retrofitted?**

The area this question covers falls outside Consumer Focus's remit hence we do not have the expertise to respond to this question. We would however refer to the example of Australia where a retrofit approach was not possible due to reasons such as lack of space within the meter enclosure. We would highlight any lack of GB experience in retrofitting and strongly call for all smart meters to have a valve included to help open up competition in the prepay market and end the stigma associated with this payment type in energy.

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<sup>10</sup> [Warm Plan Smart Meters Monitoring Report](http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Smart/Pages/SmartMeter.aspx) (Phase 3 to 5) June 2008.  
<http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Smart/Pages/SmartMeter.aspx>

## **Q11 Are there any additional maintenance, administrative and management costs associated with having all gas smart meters with a valve?**

We would urge Government to consider the social and competition related costs associated with not having all gas meters with a valve (see Question 9). Moreover, we query the figure of 200,000 replacements of credit meters with pre payment meters each year<sup>11</sup>. Based on Ofgem's quarterly company monitoring statistics, Consumer Focus estimates that at least 515,000 prepayment meters were installed in 2008<sup>12</sup>. With the likely increase in customers being put onto prepayment because of debt in the worsening economic climate, we believe the additional cost of replacing smart meters without valves would increase costs overall.

## **Q12 Do you agree with the Government's position that a standalone display should be provided with a smart meter?**

Yes. Consumer Focus strongly believes that requiring a standalone display (SD) with minimum standards for all households is the best way to ensure equal access to the potential benefits of real time information. Consumers are likely to want data presented in a variety of formats (from pounds to penguins), via a range of media (mobile phones, TVs, computers or hard copy) and we see great value in a flexible approach. We do not think that a minimum SD precludes suppliers from offering more innovative solutions and differentiating themselves in this way. It does however act as a safeguard to ensure that even those consumers who would not naturally be targeted in a competitive market, such as those with little disposable income, or who may not initially be interested in their energy use, have access to minimum information and the opportunity to engage, not just at the point of installation but also at a later stage<sup>13</sup>. Equality of access to real-time information is particularly important given that consumer engagement and action is central to the consumer benefit case for smart meters.

The separate SD could also be attached to the property (as with the meter and boiler controls) and be included in the Energy Performance Certificate as part of a check list - it would need to be working to pass. This would help to ensure that any person who moves into a new property still has access to a display even if a more personalised service or appliance provided by the supplier or other company was taken with the previous owner or tenant to their new home. This would also help mitigate against displays being discarded at both an environmental and financial cost. The Energy Savings Trust's (EST) recent research indicated that display mobility is valued by consumers, but only for a limited initial period<sup>14</sup>. What was more of a concern was the longer-term problems associated with any device that needed regular battery replacement (an experience

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<sup>11</sup> Summary: Intervention & Options. Impact Assessment of GB-wide smart meter roll out for the domestic sector. DECC. P. 39

<sup>12</sup> Ofgem Monitoring Company Performance. Q1-3. 2008. The annual 2008 figure is based on quarterly reports 1-3 and assumes the same trend as for quarter 3 2007.  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=52&refer=Sustainability/SocAction/Monitoring/SoObMonitor>

<sup>13</sup> <sup>13</sup> ibid. P.16 The Warm Plan smart meter trials found that while the reason given for participation in their intelligent meter project was the desire for accurate bills, that after three months, the ability to measure energy use was ranked higher than the billing accuracy.  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=112&refer=Markets/RetMkts/Metrng/Smart>

<sup>14</sup> Energy Saving Trust - forthcoming report July 2009

echoed in the findings of the Energy Demand Research Project (EDRP))<sup>15</sup>. We therefore suggest the Government explores using a fixed base unit (where the customer is willing), which is mains powered but with internal rechargeable batteries. In this way the display could be moved around the home but ultimately has a permanent location.

If the display breaks it should be the responsibility of whoever supplied it to the consumer to replace it if it is still under warranty and recoup any compensation from the manufacturer.

Consumer Focus sees a real value not only in the provision of a stand alone display with minimum functionality but also through a common standardised SD provided by the central communications provider. Such an approach could:

- Make it visually easier to convey messages about smart meters - the display on the wall and in the consumer's information booklet would look the same
- Enable an independent body to give follow up advice on how to use the display and reduce energy use, for example EST or even community groups. This would be harder to achieve if there are scores of different types of SD in circulation
- Simplify the process by which a customer with two energy suppliers gets a single display
- Would result in economies of scale when purchasing both the main display and any specialised devices for those with particular needs, for example those with vision impairment or dexterity problems, thus helping to deliver potentially better quality at a lower cost
- Facilitate a local-roll-out on the ground
- As long as open interoperability standards are set, suppliers would also still be able to innovate where there is a market

While we recognise that different users can benefit from choice in functionality and presentation of displays, we would note that in EST's words, there is a '*remarkable convergence*' in what consumers want from their SDs (see Question 12)<sup>16</sup>. It is important that the display looks good, though we appreciate this can be subjective, even if it is at the bottom of the range, otherwise consumers will not want to put it in a visible place.

We strongly support the proposal that there must be universal deployment of the meter with the display. Failure to do this would increase disruption for the consumer (potentially two visits) and could result in a long lapse between meter and display installation with a negative impact on engagement and low income consumers display installation likely to be left until last.

It is essential that at the time of installation, as a minimum, the following occurs:

- The importance of having a display in a visible, accessible place is emphasised
- The display is installed, made operational and where the home owner is present briefly explained (not sent by post)
- A clear information leaflet is left at installation, preferably branded with trusted organisations. This is particularly important as the homeowner or bill payer may not be present

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<sup>15</sup> Energy Demand Research Project. Review of progress for period April 2008-August 2008. March 2009. Ref: 29/09

<sup>16</sup> Energy Saving Trust - forthcoming report . July 2009.

- An approach is made regarding signing up to the Priority Services Register and a sensitively designed basic check is carried out to ensure the display is accessible and within reason suitable for the consumer, for example if they have a disability which would inhibit use
- A reminder explanation of how to use the boiler controls is given where the homeowner/bill payer is present, as this will help consumers respond to price and energy signals
- Consumers are made aware of what to do if the display fails and who to contact for further information. As mentioned in Question 4, a dedicated helpline is needed

Lastly, Ofgem must ensure that consumers who still want hard copy bills are able to get them at no extra cost. We would also recommend that a variety of hard copy feedback continues alongside a RTD.

### **Q13 Do you have any comments on what sort of data should be provided to consumers as a minimum to help them best act to save energy (eg information on energy use, money, CO<sub>2</sub> etc)**

Rather than duplicate information here, we would refer Government to the recent work carried out by EST in this area 'Exploring consumer preferences for home energy display functionality'<sup>17</sup> which highlights a core specification for both interactive and non-interactive displays. Consumer Focus believes this is a good starting point for understanding what sort of data should be provided and in what format. In addition to this it may be useful for consumers to understand not just how much energy they have used but how much they owe their supplier. It is also worth considering if minimum requirements should include flexibility to show smart tariffs such as time of use, or whether a display with this functionality should be something that suppliers can offer at a later date as part of a competitive package. We assume that much will also be learnt from the EDRP trials and look forward to full access to the findings from this pilot.

We strongly recommend that any proposed displays are trialled with representative groups of consumers from the GB population and vulnerable households. While this may seem obvious, only one of the five displays in the EST research (the most popular with consumers) had actually undergone market research. We would also point to the example of boiler controls in GB, which did not undergo wide-spread consumer testing and now act as a barrier to many in managing their energy use.

Consumer Focus recognises the tension between providing a display which is simple and easy to understand and the desire for functionality. Also the potential pressures between cost and quality of provision. With this in mind we would urge the Government to explore the idea that the display stays with the property, (as with the meter and boiler controls), and the implications of this in terms of design.

Lastly, we would stress that the provision of a display and a one-off 'whistle-stop' tour of how to use it by the meter installer, will not be sufficient to maximise consumer engagement and ensure behaviour change. It is essential to provide consumers with on-going independent advice and education, not only on how to use the displays and what the information means, but what action they can subsequently take to reduce energy consumption (see also Questions 4 and 12).

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<sup>17</sup> Energy Saving Trust - forthcoming report (July 2009)

**Q14 Do you have any comments regarding the accessibility of meters/display units for particular consumers (eg, vulnerable consumers such as the disabled, partially sighted)**

We strongly support the need for a tailored approach for certain groups of vulnerable consumers, not just with regards to displays but with the smart meter roll-out more generally. It is essential that everyone can access the full potential benefits of smart metering and any additional costs from providing specialised displays or support services should not fall on the individual consumer but be spread across the entire customer base. We would welcome working with Ofgem and the Government to determine how this can best be achieved and how the priority services register should be promoted in this context.

More research is needed on the design of displays for those with special needs but it should not be assumed that what works for vulnerable consumers will not work for the wider public. The principles remain the same: simplicity, easy access, physical ease of use (big buttons) and back lit. A well-designed display can also be accessible to consumers who speak little or no English as symbols and 'the language of money' are often universally understood. We suggest that Government works closely with relevant stakeholders on this issue and carries out rigorous market research.

We would also urge Government to take advantage of the opportunity presented by smart meters to maximise benefits that could come from remote health services particularly in the light of the Department of Health's strategy to promote personalised care.

## Section 4: Proposals for the non-domestic sector

### **Q15 Do you agree with the Government's proposal to extend to the small and medium non-domestic sector the minimum functionality that we will require for smart meters in the domestic sector, with certain exceptions to allow for individual consumer requirements?**

Yes, with the suggested flexibility to allow for a mix of metering solutions on the ground. The proposed functionality is comprehensive and the provision of minimum standards where appropriate is welcome. As with domestic smart meters, we would expect some of the functions to remain redundant for many SMEs. For example on-site generation will not be suitable for many businesses, particularly as the premises are often rented and part of a larger property.

Consumer Focus is more concerned that SMEs are provided with a meter which best suits their needs (AMR or smart) and opportunities are maximised to drive improvements in customer service. We want to see suppliers engage with the businesses prior to installation to ascertain:

- the technical needs (such as the sites which cannot have their gas supplied through smart meters for technical reasons)
- installation procedures which may require businesses to power down critical equipment at inconvenient times
- whether the business is part of a wider group with multi-site operations and hence could want a meter that is compatible with metering used on their larger sites
- if load management capability is part of the meter functionality then the supplier must enter into a dialogue with the business to ensure that should the function be used it will not threaten equipment or processes
- the circumstances (given there is significantly less consumer protection in the SME market) under which remote disconnection are employed. These must be strictly controlled as improper/incorrect use could lead to serious consequences for the business concerned

### **Q16 Do you have any comments on how such a requirement, and the exceptions to it, should be framed?**

Businesses should be allowed to choose the meter which they feel best suits their needs (technical reasons permitting), provided they understand the charges involved and the services which each type can offer.

As part of the ongoing development of the Business Energy Efficiency Agreement works, Consumer Focus understands that the Energy Service Development Network is compiling a database to better understand energy use among the diverse SMEs within the economy. If it has not done so already, this network should be used to better understand the metering needs of SMEs and the information and advice they would require to extract the best benefit from improved metering.

**Q17 Do you have any comments on how the proposed new requirements should work in the context of the current developments in metering in this sector?**

As in the household sector, many of the benefits to be gained by customers are from the ability to monitor energy use and change behaviour. Accordingly we want to see a well-funded, visible and trusted information and education plan which takes into account the time pressures faced by SMEs (where energy use is not a core business activity). It needs to be ensured that businesses do not have to pay for more expensive metering products (to get an accurate bill – which should be the norm regardless of the meter being ‘smart’) without being able to take control of their energy use.

We would also want to see much greater emphasis in the roll-out on SMEs being given the *option* of time of use tariffs and their volumes being settled on this data rather than the continuing application of static profiles where an advanced or smart meter has been installed. One of the missing benefits that smart metering should introduce into the market is the advent of more cost-reflective pricing offers. (This same argument is also true for the development of smart grids (*see our response to Q18*), which could allow demand response through a real time cost-reflective price signal.) As matters stand we can see few incentives on suppliers to offer such innovative tariff options; and unless the industry is told to change its practices, smart meters that serve maximum demands of less than 100kW (which includes many micro-businesses) would continue to be treated as non half hourly and thus subject to the relevant profile.

The wealth of consumption information that shall be forthcoming should, at the very least, be used to address the accuracy of electricity profiles which suppliers use to develop tariffs and offers. We acknowledge that successful roll-out of smart metering is not contingent on amendments to the profiling regime. However, we would welcome future investigation by the industry on possibilities for improved accuracy of the profiles available, and potentially a move towards settlement on a half hourly basis (if investigation deems it to be cost effective).

**Q18 Do you have any comments on the implications of the Government’s proposed approach in this sector for the future development of smart grids?**

Consumer Focus would like seek clarity from DECC as to what is meant by smart grids as the term appears to us to be only loosely defined and means many things to different stakeholders. We believe that the notion of a smart grid means transforming passive networks into ones which make better use of generation (at a local distribution connected level and more centralised plant) and demand information (from smart meters) to enable better investment decisions and to improve energy transportation, use efficiency and demand management, but there are many facets to the concept.

At this stage we support the intention set out in the recent white paper to produce a ‘vision for a smart grid’, and subsequently a plan to deliver this. As a first stage there is a need for a ‘plain English’ description of what a smart grid is, the potentials for them, possible costs and benefits to consumers, timescales to deliver and any thinking from the Government or industry on the nature of their deployment in GB. This work-stream is urgent, not least because one route to capture many of these benefits is through the electricity distributors as they could see real benefits through deferred reinforcement expenditure. However there has been only limited consideration of these issues as part of the current distribution price control review, and current incentive structures do not encourage the distributors to actively examine available options.

### **Q19 Do you have any comments on the revised Consultation Impact Assessment for this sector?**

We have concerns about the Impact Assessment. Given the diverse nature of the four million SMEs in the GB economy, we feel that more detailed consideration should have been undertaken for this important sector.

While we appreciate it is hard to classify businesses for the purpose of this policy, the proxy employed – based on meter profile class for electricity and quarterly read for gas meters – does not reflect types of business structure (eg, franchises, affiliates etc.) or take account of the fact that some businesses may fall into this SME definition for one fuel but not the other.

The impact assessment states that there are 1.5 million gas meters with an average 170,000kWh/yr consumption. As we understand it others have suggested that there are approximately 800,000 business meters consuming less than 732,000kWh/yr, which translates as around 87,500kWh a meter, a factor of two less.

Although we appreciate that this may be a discrepancy which can be explained, it does reinforce our concerns that this sector of the market has not been given adequate consideration and that the results of the assessment may be challengeable.

### **Q20 Do you have any comments on the implications for the non-domestic sector of the options identified for a domestic delivery model?**

The number of suppliers operating in the SME market is larger than in the household market. As such we would not want to see a deployment strategy which unfairly penalises smaller suppliers or prospective new entrants. No consideration has been given to how non-incumbent suppliers can obtain the necessary equipment and the supporting agency services at the same cost and rate as the big six, particularly as such suppliers do not have a high density of 'in-area' customers to defray deployment costs. It is also relevant that often these services are mandatory yet many ex-host suppliers have taken these services in-house.

We understand that competition in the metering market, which is much less than is often stated by the regulator, is such that current issues are likely to become increasingly pervasive once the roll-out begins in earnest. Furthermore no details are given on how a mechanism to prevent discrimination against small suppliers when accessing metering resources though mooted would work, or how it would be policed.

In terms of introducing consumer protection for SMEs during the roll-out of meters, the documentation noted that: 'The Government will continue to work through these concerns as this issue is one that will be considered as part of its wider investigation of the need for further consumer protection as part of the roll-out of new metering to both domestic and non-domestic customers.' Consumer Focus would like to enter into a dialogue with DECC on this issue – particularly as the issue of small business consumer protection goes wider than smart meters alone.

**Q21 Do you agree with the Government's approach to promoting interoperability in the non-domestic market? Do you have particular views about the interaction between the Government's proposals for the non-domestic sector and the domestic smart meter roll-out?**

Interoperability should help smooth the switching process for customers as meter assets should not need replacing. What concerns us though is what thought has been given to those businesses who have already taken smart meter offers from suppliers (particularly from more innovative smaller suppliers), should it transpire that the meters currently in-situ become stranded if they do not meet the functionality requirements or are not interoperable with the central communications provision service.

The consultation documentation does mention that further consideration should be given to this issue during the design phase. We would urge Government to ensure that it does, and sooner rather than later. However, as mentioned (see Question 1) if this occurs, we would seek assurances that any consumers in early receipt of smart meters do not face barriers to switching.

One option is an amendment to the roll-out model so that suppliers are not compelled to use the central communications provider for any customers where a smart meter is already installed (provided that the meter meets minimum functional specifications). This will mean that a central communications provision can still be implemented for the significant majority of the customer base, but that suppliers retain a choice whether to deploy smart meters prior to the central communications provision being in place. Customers are likely to face more choice and fewer costs under this approach.

For these customers, the supplier could retain an option to opt-in to use the services of the central communications provider, and can therefore choose to do this based on the individual business cases. This may be an option on change of supplier, although it is not necessary that this occurs because the new supplier may choose to contract with the existing metering and/or communications service provider.

It is also recognised that bidding communication providers may view this as an additional risk and therefore price for this in to their tender. It is recommended that this option is assessed prior to conducting the procurement process. Should this issue arise and not be properly resolved, the stranded asset, which is relatively valuable, could act as a barrier to switching if the incoming supplier is not prepared to exchange the meter.

## Section 5: Other Issues and Next Steps

### **Q22 Has the Government identified the right issues for immediate next steps? Are their other activities or key issues which you think should be addressed at this stage of the preparations for roll-out?**

As stated in the overview, we urge Government to give a higher priority to the consumer experience in its next steps. As well as work to address data security and privacy concerns, consumer rights and accessibility of real-time information (all of which we welcome) the following activity also needs to take place in conjunction with the outlined approach:

1. Government and Ofgem should carry out a comprehensive assessment of the potential consumer risks and opportunities resulting from smart metering and develop a strategy to ensure the best outcome for consumers. This should be a cross-departmental approach with the Department of Health, the Department for Business Industry and Skills (BIS), consumer groups and other relevant bodies. It should include a review of the suitability of existing protections, particularly around debt and disconnection, sales and marketing, data protection and privacy and the impact of multiple rate tariffs. This is urgently needed as tens of thousands of consumers already have smart meters and this number looks set to increase exponentially before the official start of the roll-out.

2. Ofgem and Government with consumer bodies should develop a set of transparent metrics to ensure:

- The overall costs of the roll-out are efficiently and reasonably incurred
- High customer service and fair retail market practices, prior to, during and after roll-out
- Any costs passed on to consumers are fair, communicated as soon as possible, and that any operational savings resulting from smart metering are also reflected in energy tariffs

3. Outline steps to protect all consumers including those on low incomes from the financial risk and impact of the smart meter roll-out.

4. Prioritise the development of the communications and social marketing campaign which will accompany smart meter roll-out, including, linked to this, the delivery activity on the ground. This should be an ongoing campaign at both a local and national level that runs prior to, during and after smart meter installation, and will help maximise the benefits to consumers. We welcome the commitment to work with Consumer Focus and other consumer organisations but there should also be coordination between UK Government and the devolved nations, and representation from bodies in these nations in during the development process.

**Ends**

## **Consumer Focus response to consultation on smart metering for electricity and gas**

If you have any questions or would like further information about our response please contact Zoe McLeod, Principle Policy Advocate, by telephone on 0207 799 7973 or via email: [zoe.mcleod@consumerfocus.org.uk](mailto:zoe.mcleod@consumerfocus.org.uk).

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