

**FPAG**



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Dear Adrian

**Comments on providing an accurate and up-to-date account balance via the IHD**

*The following is a response from **Consumer Focus, FPAG, Age UK and Sustainability First** in response to the debate around the account balance functionality on the IHD for credit customers.*

*We strongly support the provision of an accurate and up-to-date account balance, to be provided via the IHD. This should be a fundamental requirement of the smart meter functional specification. We believe that that an accurate account balance would be a useful tool to help consumers budget and engage them with their energy use. In turn this should help promote an enduring engagement with the IHD.*

*We consider that not including this functionality would be a missed opportunity to help consumers manage their energy use better by focusing them on the issue that concerns them the most – how much it is costing. This is especially important for low income and vulnerable consumers and for a growing number of customers in the context of rising energy bills. Below we have outlined the case for the inclusion of an accurate, up-to-date account balance.*

**Account balance functionality as set out in the draft minimum specification IHD requirements**

The draft minimum specification IHD requirements state that the account balance for a credit mode consumer would be updated no less frequently than on a monthly basis.

There is strong consumer interest in having an account balance on their IHD (recent research showed that 93% of consumers would be interested in having an account balance on their IHD<sup>1</sup>). However, we consider that the frequency of update will determine the usefulness of the account balance. In the paper below, we outline why we consider that the account balance will only be useful/meaningful if it is as accurate as possible.

**Consumer Focus, FPAG, Age UK and Sustainability First therefore suggest making the following clarification to the account balance functionality as set out in the draft minimum specification IHD requirements:**

We consider that IHDs should display account balance information in real-time, to correspond to the customer's billing periods. This would mean that the balance shown on the customer's IHD would be updated, in near real-time, as they used energy, to give a running total of how much they were spending and how much they were on course to pay in at the end of the next billing period (ie. including standing charges).

We believe that this calculation could be carried out directly in the meter, as is currently proposed for smart meters in prepayment mode. This would therefore not involve any significant increase in cost. This will mean that any meter would be able, with an adjustment to the current technical specification, to carry out the account balance calculations directly in the meter – this is already done for prepayment customers who always have an up-to-date account balance. We therefore consider that there should be no increase to the manufacturing cost of the smart meter.

Below we set out our rationale for this recommendation.

1) Strong consumer interest in an account balance via the IHD

Face-to-face Omnibus research carried out for Consumer Focus<sup>2</sup> in May 2011 showed that 93% of consumers would be interested in having an account balance on their IHD that showed how much their electricity and gas had cost, and how much they owed their energy supplier, since their last energy bill. This interest was consistent across social classes.

When broken down by payment type, consumers paying by direct debit were the most interested in this functionality (95% consumers that paid by monthly direct debit were interested, and 97% of those paying by quarterly direct debit), followed by consumers paying on demand<sup>3</sup> (93%). Consumers with a prepayment meter were slightly less interested; 86% of this group were interested in an account balance on the IHD. This could be because they already have access to this account balance information directly on the meter.

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<sup>1</sup> In May 2011 TNS RI carried out an Omnibus survey of 1964 adults across Great Britain on their attitudes to the following: smart meters (including interest in an up-to date account balance) and doorstep selling. Participants were asked the following questions re. the account balance:

- a) Your energy display will give you different information about how you use gas and electricity. How interested would you be in your display telling you how much your electricity and gas has cost you, and how much you owe your energy company, since your last energy bill? This is otherwise known as your account balance. *Options given: very interested, quite interested, not sure, not very interested, not at all interested.*
- b) And how up to date would you like this account information to be? *Options given: Updated instantly to give a running total of what I owe; updated once a day; updated once a week; updated once a month; updated less than once a month*

<sup>2</sup> In May 2011 TNS RI carried out an Omnibus survey of 1,964 adults across Great Britain on their attitudes to the following: smart meters (including interest in an up-to date account balance) and doorstep selling.

<sup>3</sup> Usually by cash or cheque.

## 2) Customer interest in an up to date account balance

When asked how up-to-date the account balance information should be, almost a quarter of consumers (23%) wanted the account balance to be 'updated instantly to give a running total of how much I owe', and 66% wanted this to be updated at least weekly<sup>4</sup>. Consumers paying by direct debit had one of the highest levels of interest in getting an instant update. When asked why they would like an instant update, the main reasons were so that they can budget (38%), knowing how much energy they're using (19%) and to see how much each item costs to run (14%).

In the early smart metering trials of the 1980s<sup>5</sup> an up-to-date account balance for electricity consumption was the most accessed function via the in-home display at that time. The trial report states that; "There is no doubt that customers appear to have tremendous enthusiasm for such a device, the prime motivation being that of up-to-date information on their indebtedness."<sup>6</sup>

Cost is the bottom line for consumers. Focus group research<sup>7</sup> showed that consumers consider there is too much information on bills; all they really wanted to know was how much they owe. Further Consumer Focus research has also shown that 35% of consumers find both gas and electricity bills hard to understand.<sup>8</sup> An accurate account balance on the IHD would provide consumers with immediate access to their account balance, and provide greater choice of ways in which consumers can easily access and understand their bill and see how much they owe and potentially a more convenient and accessible option.

## 3) Consumers will expect the new 'smart' energy market to offer them an improved level of service.

The smart metering rollout is a chance to bring the GB energy market into the 21<sup>st</sup> century. Given the amount of money being spent on the rollout (it is estimated that smart meter roll-out will cost consumers some £11 billion<sup>9</sup>), consumers will expect smart meters to include functions that make their lives easier. There may be a reputational issue for the Programme and suppliers; if consumers wonder why, if the new system is so smart, it can't show them this information? An up-to date account balance on their IHD seems the least they should expect. Account balance information is already easily available to consumers on demand for their mobile phone usage<sup>10</sup> by sending a simple text; some companies also send this information proactively (eg. How many free minutes and texts have been used in that billing period, account balance so far, etc.). It does not seem too much to ask for this for a similar functionality to be available on the IHD.

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<sup>4</sup> Broken down as follows: 23% wanted the account balance to be updated instantly; 13% once a day; and 30% once a week.

<sup>5</sup> Full document available on request

<sup>6</sup> Ibid

<sup>7</sup> Informing choices – Consumer Views of Energy Bills, Consumer Focus 2010, <http://consumerfocus.org.uk/g/4p9>

<sup>8</sup> This was an online Omnibus survey of 2,048 consumers aged over 18 years conducted by ICM on behalf of Consumer Focus in March 2010.

<sup>9</sup> DECC/Ofgem Impact Assessment, 30/03/2011, <http://tinyurl.com/234968z>

<sup>10</sup> Mobile phone customers are able to access their account balance date (how many minutes/ texts they have left, and how much their bill will cost so far) in a variety of ways. These include: the customer sending a free text message, the customer being sent a text alert telling them that they have almost used their free allowance of minutes/ texts, the customer calling a freephone number, the customer looking online.

4) This functionality would have particular benefits for the low income and vulnerable consumers.

This could be a valuable tool for all consumers to monitor how much their energy use is costing them and budget accordingly. Consumers would then be able to reduce their usage if they see that they are on track to get a higher bill than they had budgeted for if necessary.

This would be particularly valuable for the estimated 5.1 million GB households<sup>11</sup> that live in fuel poverty, particularly as the majority of these households do not use PPMs. Of those in fuel poverty an estimated 50% are pensioners and 80% of households vulnerable in some way<sup>12</sup>. A single pensioner living on pension credit survives on little more than £7140 per annum after basic housing costs<sup>13</sup>. It is clear that for these consumers every pound counts.

Many low income consumers who pay weekly or regularly are likely to welcome more regular info on how well they are keeping up with payments. This would also allow them to modify their behaviour more quickly, similar to what PPM users can do.

Although fuel poor and low income consumers may particularly benefit from an account balance updated in real-time, the research suggests that the majority of consumers would find this a useful functionality. This function is arguably particularly important given rising energy prices. The Bank of England anticipate that energy prices will rise sharply this year alone, meaning that more and more consumers will want to keep a very close eye on how much they spend on energy bills. Indeed, in the first week of June alone, one energy supplier had already announced plans to increase gas prices by almost 20%.

It is crucial that the amount of energy used in pounds and pence on the IHD is not less than the final bill the customer receives, ie. that it includes standing charges and any other charges. An amount on the IHD that is lower than the final bill could result in the customer falling into debt.

5) The account balance will help to deliver the consumer benefits of the Impact Assessment

We are mindful that the Programme's consumer benefits workstream has not yet begun. With this in mind, we advise against taking decisions that preclude this functionality, which could be of significant benefit to consumers, before this group has begun its work. In particular, we consider that the account balance functionality could offer the following benefits:

Consumer behaviour change due to having a smart meter is an important part of the benefits set out in the Impact Assessment<sup>14</sup>. The smart meter business case rests on consumers reducing their energy consumption by 2.8% for electricity (credit and PPM); 2% for gas credit and 0.5% for gas PPM.<sup>15</sup> IHDs have been shown to increase the amount of energy consumers save, yet a concern shared by all parties is that many consumers will not engage with their IHD at all, or in any case not for long. It may be that having up-to-date information on the account balance available would help promote a lasting engagement with the display, making consumers more likely to consult their IHD on a regular basis.

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<sup>11</sup> Estimated figures for 2011: 5.1m households in fuel poverty (4.1m in Eng; 0.33m in Wales and 0.68m in Scotland). Figures provided by the Centre for Sustainable Energy

<sup>12</sup> Figures from NEA

<sup>13</sup> Figures provided by AGE UK. The standard minimum amount of income for a single pensioner is £137.35 (their income may be topped up to this amount by pension credit). This adds up to around £7,140 per annum. On top of this, if they were a householder they would probably get help with basic housing costs.

<sup>14</sup> DECC Impact Assessment, Smart meter rollout for the domestic sector: 30/03/2011

<sup>15</sup> Ibid

There are other clear 'non-monetised' benefits such as increased consumer confidence and a better consumer experience of smart metering. This will ultimately be beneficial for the success of the rollout as a whole.

The impact assessment also identifies that £1.24bn of the supplier benefits are expected to come from reduced customer inquiries and customer overheads. If the total amount of energy used in pounds and pence on the IHD is different to the amount that the customer is billed, this is likely to result in increased customer calls to the supplier not fewer. This is particularly the case if the amount on the IHD is lower than on the bill, which has standing charges and other costs added<sup>16</sup>.

### **Frequently asked questions about an up-to date account balance**

#### Isn't an account balance updated monthly enough?

An account balance updated monthly is the functionality set out in the draft minimum specification IHD requirements. Our research suggests that only up to 27% of consumers would be happy with their account balance on their IHD being updated just once a month. We also do not consider that an account balance which is only updated on a monthly basis would be sufficient for the low income customers who need to budget carefully day to day or week to week.

The IHD will already show historical information on the previous month's usage, for example for 1<sup>st</sup> – 31<sup>st</sup> May, in pounds and pence (not including the standing charge, discounts or any other charges such as the Green Deal charge).

If the IHD also shows an account balance updated monthly, this will not correspond to the same time period as the historical usage information, because billing cycles rarely run from the 1<sup>st</sup> of the month. The customer would end up with an account balance reflecting how much their usage cost for a different time period. For example, from 5<sup>th</sup> May – 5<sup>th</sup> June.

To summarise, the customer would be presented with two different figures, each for slightly different time periods, for example;

- Historical usage information for the previous month, eg. 1<sup>st</sup> – 31<sup>st</sup> May
- The account balance on their IHD for the latest billing period, eg. between 5<sup>th</sup> May – 5<sup>th</sup> June

We consider that this could cause considerable confusion for consumers and could be counterproductive.

Also, information on the previous month's historical gas usage will not necessarily allow consumers to predict the next month's usage in any detail. Even a 1°C change in temperature drives approximately a 5% change in gas consumption<sup>17</sup>. Electricity for heating is, of course, similarly sensitive to temperature and the same concerns about a month's data remain.

Other disadvantages of this approach are as follows:

- Payments made in the interim period before the account balance is issued may not have been applied. For example, if a payment is made two days before the bill is issued, but once the billing cycle process has started, this payment is unlikely to be reflected in the account balance. This could cause consumer confusion and anxiety if they have made a payment that is not shown. This could also lead to increased contacts to consumer call centres.

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<sup>16</sup> Smart Meter rollout for the domestic sector. 30/3/2011.p.2 <http://bit.ly/sN2HEo> page 2

<sup>17</sup> Industry gas demand forecasting assumption. See 'National Grid's Gas Demand Forecasting Methodology 2007'; page 26 Fig 21 illustrates this relationship. <http://tinyurl.com/6ectb7v>

- This approach offers limited benefits for budgeting. We consider that the main advantage of an up-to-date account balance would be to allow consumers to reduce their usage if they see that they are on track to get a higher bill than they had budgeted for necessary. In terms of budgeting, it is obviously easier to budget with an accurate knowledge of how much you have spent at a certain point in time, rather than trying to guess based on how much you spent last month. It is crucial that the amount of energy used in pounds and pence on the IHD is not less than the final bill the customer receives. This could result in the customer unwittingly falling into debt.

### Consumers will be told how many energy units they used in the previous month– isn't that enough detail?

Consumers will be given historical usage information on their IHD, showing among others how many energy units they have used in the previous month. This will be shown in pounds and pence as well as kWh. However, although this is a useful tool to give consumers an idea of what they're spending, there are several reasons why this will not be sufficient for them to accurately budget.

- 1) Assuming that the customer is billed monthly, this will mean that they will be given two different amounts (one for unit usage in the previous month, one for their billing period) which could potentially be confusing.
- 2) Even if the customer was billed for exactly the same time period as that covered by usage information for the previous month, the month's consumption information would not include standing charges. Given that standing charges can vary from just under 9p to almost 46p a day, over a month this could reach up to £13. It is important to remember that some consumers, particularly those on low incomes, often budget extremely carefully. We are concerned that, for these groups, a difference of even a few pounds that was not planned for in a weekly, monthly or quarterly budget can cause detriment.<sup>18</sup> It is critical that the customer is not hit with an unexpectedly high bill. It would be unacceptable for a customer to be budgeting according to a total on their IHD that was an underestimate of the total amount owed.

### Couldn't consumers be given this information online instead?

Providing this information via an enhanced display would automatically exclude many consumers who stand to benefit the most. Consumers on low incomes are the least likely to be able to afford to pay for an enhanced display. In the same way, putting the information online will inevitably exclude consumers still do not have access to the internet, as well as those that simply are less comfortable going online. Ofcom's 2010 report on the telecommunications market stated that; "Home internet access varies significantly by age and socio-economic group. Internet take-up drops off sharply among older age groups and DE socio-economic groups. While 73% of adults overall can access the internet at home, just 23% of people aged 75+ and 54% of DEs can do this<sup>19</sup>."

<sup>18</sup> It is estimated that in 2008/09, 13½ million people in the UK were living in households below the low-income threshold, defined as £119 per week for single adult with no dependent children; £206 per week for a couple with no dependent children. Source: <http://bit.ly/a986Kq>. For a single person living on Jobseekers allowance in 2010, that maximum weekly contribution-based payment was £65.45. <http://bit.ly/coroU6>. By the time that they have paid for food, transport and utility bills and other essentials, it is clear that a few pounds could make a difference.

<sup>19</sup> <http://www.ofcom.org.uk/static/cmr-10/UKCM-4.11a.html>

Prepayment should *not* be the only option for these consumers to have access to accurate and timely data. Prepayment is not a suitable payment option for many consumers, including for example: consumers with a poor dexterity or a disability which makes it difficult to physically top up the meter or to get to the shops to buy credit; consumers with mental health problems which mean that they may regularly self-disconnect; or consumers that are medically dependent on electricity, for example for a home kidney dialysis machine.

This would need to be carried out in suppliers' back-office systems which would add significant cost.

We believe that this calculation could be carried out directly in the meter, as is currently the case for prepayment meters. Given that all smart meters are prepay ready this should therefore not involve any increase in cost. Once the official rollout begins, all smart meters will be capable of functioning in either prepayment or credit mode.

This will mean that any meter would be able, with an adjustment to the current technical specification, to carry out the account balance calculations directly in the meter – this is already done for prepayment customers who always have an up-to date account balance. We therefore do not consider that there should be any additional manufacturing cost to the smart meter.

A real-time account balance calculated on the meter and sent to a display in the customer's home has already been successfully achieved in consumer trials carried out in 1983 by the then East Midlands, Midlands and South Eastern electricity boards<sup>20</sup>. Some 300 consumers participated in the trial; much of the documentation, reports and research is still available. The trial results showed that 'total electrical account' ie. an account balance updated in real-time, was seen to be one of the most useful features of the display. Given that the technology used was less sophisticated than metering systems that are currently available, there do not appear to be any technological barriers to providing this functionality providing a different approach is taken to some aspects of rebates/discounts.

#### How would this work with discounts?

We are aware that some discounts are currently applied retrospectively to customers' bills, such as annual loyalty bonuses or prompt pay discounts, and it would be difficult, and arguably inappropriate, to include these in the 'on' meter calculation as they are dependent on consumer behaviour. There are other types of discount, such as dual fuel and Direct Debit, which are applied automatically and we see no reason why these could not be embedded within unit prices for the purposes of providing an accurate account balance through the meter.

It is well known that energy suppliers have a complex array of tariff structures which are confusing to consumers, make it difficult to compare offerings and which have been acknowledged as potential barriers to consumers' engagement with the competitive energy market. Indeed, Ofgem has signalled in its Retail Market Review<sup>21</sup> that there needs to be significant reforms in the tariffs that suppliers offer.

This issue underlines one of the group's concerns; that suppliers are seeking to 'shoehorn' existing tariff and billing arrangements into a new smart context. The smart metering rollout should be an opportunity to find creative solutions to some of the problems that consumers face today.

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<sup>20</sup> CALMS field trial interim report 1984 - SEEBOARD – full report available on request

<sup>21</sup> The Retail Market Review - Findings and initial proposals, March 2011

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Markets/RetMkts/rmr>

We do not think that it is appropriate to deny consumers a functionality that would offer them the many benefits outlined in this paper, on the basis that it would not support the massively complex discount structures which exists in today's tariffs, which are likely to be outlawed by Ofgem in the near future.

We suggest that this could potentially be overcome in one of two ways and merits further exploration:

- **Changing the tariff structure so that the unit price includes the discount.** If the discount is given automatically to the customer, such as a direct debit discount or a dual fuel discount, we suggest that this should be built into the unit price.
- **Not including the discount and communicating this clearly to the customer.** If the discount depends on the consumer behaving in a certain way, for example, if it is only awarded if the customer stays with the same supplier for a certain period of time, there will be no guarantees that the customer will receive this discount. It is not therefore appropriate to include it within the unit price.  
In this case, we do not see a problem with it being credited to the customer's account at the end of the relevant period. However, this would need to be clearly communicated to the customer for example, on their bill, in the key facts and terms and conditions of the product, during the demonstration of the IHD.

We are aware that removing discounts from the account balance calculation in this case would mean that some consumers may still see a difference between the account balance on the IHD, and their final bill. If this is appropriately communicated, customer queries should be minimised. Much greater customer enquiries and concerns are likely to be generated if the amount on the IHD is not lower than the final amount the consumer has to pay. In addition, this might boost consumer satisfaction, as their bill would actually be lower than expected. A discount would feel like an actual discount, rather than just being a figure on the bill.

Where consumers are also paying a Green Deal charge, it is envisaged that this will be a daily charge that will not alter as it is fixed by the golden rule. Hence for a real-time calculation it should not pose a particular accounting challenge.

#### Why will an up-to-date account balance on the IHD be increasingly important?

It is widely acknowledged that energy bills are going to rise in the short and long term, both due to increases in wholesale energy costs, and the impacts of climate change policies:

- The Bank of England's latest Inflation report included an assumption that gas prices may increase by 15% and electricity prices by 10% this winter<sup>22</sup>.
- DECC's recent paper on the impacts of climate change policies on energy bills estimates that energy bills will rise by £136 between 2010 and 2020 (from £1,103 to £1,239) in 2009 real prices<sup>23</sup> – almost a 11% rise. These figures may be even higher as they assume an oil price of \$80/bbl, and oil is currently trading at over \$110/bbl.

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<sup>22</sup> Bank of England Inflation Report, May 2011, Page 34

<sup>23</sup> DECC paper: 'Estimated impacts of energy and climate change policies on energy prices and bills', July 2010, page 6. Based on the assumption that climate change policies are a given.

This will mean more and more consumers will have to budget carefully to ensure they can afford their energy bills.

### Is there a link to the Green Deal?

In a world where many customers could have the Green Deal charge attached to their energy bill, having an accurate daily account balance is arguably particularly useful, especially for low income customers. Consumers may be confused by multiple line items on energy bills and metering systems, particularly with the introduction of the Green Deal but also the handling of energy debt arrears, microgeneration payments and potentially standing charges. The consumer must have confidence that the account balance on their IHD covers all their costs, and that by making regular payments they will cover all their costs by the end of the month. They must not be left with a sudden 'hit' at the end of the month, or even week, as this could result in consumers self-disconnecting or falling behind in payments. Nor should the IHD encourage overpayment or underheating by not reflecting payments in real-time.

Fuel poor and low income consumers will need particular persuasion to take on the Green Deal. These groups of consumers may be offered Green Deal improvements under the Energy Company Obligation, yet be reluctant to take advantage of them due to the perceived financial risk of taking on an additional debt. If the Green Deal is popular with private and social landlords, a large number of fuel poor and low income consumers may not have little choice about taking on the Green Deal if their landlord decides to go ahead, or if they move into a property that already has a Green Deal debt attached. Here again, the perceived risk of an additional debt could cause considerable anxiety if consumers are not given additional reassurance about the accuracy of their account balance and the spread of repayments over time.

Up-to date account information will be of particular benefit to these consumers during winter and the colder months as gas consumption (and electricity when used for heating) is particularly sensitive to temperature changes. We consider that providing an up-to date account balance for this group is a question of equity; all consumers will be paying for the Green Deal via their bills, therefore all consumers should be given every support to help them benefit from it.

### Will this be relevant as new and innovative payment methods become available?

Yes. We believe that having an up-to-date account balance on the IHD will help consumers to understand and engage with new and innovative payment methods in the future. As prepay develops it is likely that customers will use a mixture of direct debit and cash and cheque payments alongside top-ups, as needed, and the distinction between payment types is likely to blur. For example, we are aware that some suppliers may offer an 'Oyster-card' style payment system, where the supplier is given your bank details and the meter is automatically topped up once you only have a certain amount of money left. While we welcome more choice for consumers in this area, it will mean that transparency around the real time account balance is even more important. For customers that move onto a time of use tariff, having an up-to-date account balance will help them to stay in control of how much their energy is costing them, and to avoid bill shock.

### Won't this functionality cost too much?

It is suggested by suppliers that this functionality would be cost-prohibitive. However, as previously explained, the necessary calculations will be able to be done directly in the meter, thus removing the cost of using suppliers' back-end systems. Moreover, we consider that providing an up-to-date account balance this could actually reduce costs to suppliers for the following reasons:

- Once consumers are aware that the account balance on their IHD is accurate and completely up-to-date, calls to suppliers about billing issues should decrease. Given that billing is by far the most common reason for calling Consumer Direct (33% of complaints in 2011 related to billing issues)<sup>24</sup>, this should have a real impact on call volumes.
- Consumers will be able to budget more easily and so be less likely to fall into debt, thus avoiding the associated costs to suppliers of debt management and debt recovery.

In addition to these, there are also clear non-monetised benefits such as increased consumer confidence and a better consumer experience of smart metering. This will ultimately be beneficial for the success of the rollout as a whole.

This information will confuse consumers and result in increased contacts to suppliers' call centres

An up-to date account balance will be a relatively simple concept to explain to consumers. It is how much money they have spent so far in their billing period, or (for direct debit customers) how much there is in credit/ debit in their account. It is hard to understand why suppliers feel that consumers who want this information would be able to calculate it from previous month's information and arrive at an informed opinion about their next bill and that this will not drive customer queries when bills are finally received. On the contrary, as explained above, we consider that once consumers are aware that the account balance on their IHD is accurate and completely up-to-date, calls to suppliers about billing issues should actually decrease significantly.

The smart metering rollout will inevitably result in some customer contact to call centres. We understand that, under the supplier Code of Practice for smart meter installation, suppliers will explain to consumers how to use the IHD at the point of installation. Providing customers with a clear explanation of the various features of the IHD including account balance, and providing instruction manuals that are easy to understand will go a long way to addressing customers enquiries and increasing understanding of the account balance feature.

Most fuel poor consumers are already on prepayment, so surely they'll get this information anyway?

It is a common misperception that most fuel poor consumers already pay by prepayment. In reality, this is not the case. DECC's latest report on fuel poverty statistics<sup>25</sup> reported that in 2008 only 15.2% of fuel poor gas customers paid by prepayment. The 31.5% of fuel poor electricity customers that paid by standard credit, and 32.4% that paid by direct debit, would therefore have benefited from an account balance updated in real time.

The figures are roughly similar for fuel poor electricity customers: only 19.8% of fuel poor electricity customers paid by prepayment, as opposed to 40% that paid by standard credit, and 40.2% that paid by direct debit.

Shouldn't consumers that want this level of accuracy move onto prepayment?

This approach suggests that only prepay customers should be entitled to receive transparent, up-to-date information about how much they are spending. The smart metering rollout is an opportunity for energy suppliers to bring their billing systems up-to-date with the 21st century.

<sup>24</sup> Consumer Direct complaints data, 1 Jan – 26 May 2011

<sup>25</sup> Fuel Poverty 2008 – detailed tables – Annex to the DECC Annual Report on Fuel Poverty Statistics 2010. Tables 30 & 32. Figures are for England.

Prepayment is not suitable or appropriate for all consumers, including a large proportion of the fuel poor, for example: consumers with a poor dexterity or a disability which makes it difficult to physically top up the meter or to get to the shops to buy credit; consumers with mental health problems which mean that they may regularly self-disconnect; or consumers that are medically dependent on electricity, for example for a home kidney dialysis machine. This is why both existing licence conditions and the enhanced protections set out in the Smart Metering Consumer Protections Package<sup>26</sup> state that certain groups of consumers should only use prepayment if it is safe and practicable.

#### How would this work for direct debit customers?

Recent research<sup>27</sup> by Consumer Focus showed a strong interest among this payment group for an account balance on the IHD: 95% of customers paying by monthly direct debit would be interested in having an account balance on their IHD, and 67% of these<sup>28</sup> wanted it this to be updated at least once a week.

Some suppliers have claimed that an accurate account balance would be meaningless for consumers that pay by direct debit. On the contrary, we consider that this would lead to greater transparency for consumers on where their money is going to, and empower them proactively manage their finances and ask for a refund where appropriate. Our research consistently shows that direct debit customers are the least engaged with their energy use, with online direct debit customers the worst of all<sup>29</sup>.

Increased transparency about the amount of credit a customer has who is using direct debit should also help to improve trust with energy companies. For example, in 2008, it was reported in the news that some suppliers were very reluctant to adjust consumers' direct debit payments, and to issue refunds, even where consumers had been overpaying their direct debit by a significant amount. Although Ofgem has since introduced new licence conditions setting out guidelines for fair and reasonable direct debits (in 2010) consumers would still benefit from proactively monitoring their accounts. This would place the consumer in more control of their account.

We look forward to hearing your response to our views.

Yours sincerely

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**Sustainability First**

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<sup>26</sup> Published by Ofgem on 30th June 2011, currently out for statutory consultation.

<sup>27</sup> In May 2011 TNS RI carried out an Omnibus survey of 1,964 adults across Great Britain on their attitudes to the following: smart meters (including interest in an up-to date account balance) and doorstep selling.

<sup>28</sup> Broken down as follows: 25% wanted the account balance to be updated instantly; 11% once a day; and 30% once a week

<sup>29</sup> Face to face Omnibus carried out in January 2011 by TNS RI on behalf of Consumer Focus. Only 57% of online gas customers check their bill every time it arrives (54% for online electricity customers), compared to 77% of gas customers that receive a paper bill (78% for electricity).