



**Consumer
Focus**
Campaigning for a fair deal

Consumer Focus response to Smart Metering Implementation Programme: Implementation Strategy

September 2010

About us

Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland. We were formed by the The Consumers, Estate Agents and Redress (CEAR) Act 2007.

We operate across the whole of the economy, persuading businesses, public services and policy makers to put consumers at the heart of what they do.

Consumer Focus tackles the issues that matter to consumers, and aims to give people a stronger voice. We don't just draw attention to problems – we work with consumers and with a range of organisations to champion creative solutions that make a difference to consumers' lives.

Consumer Focus has strong legislative powers. These include the right to investigate **any** consumer complaint if they are of wider interest, the right to open up information from providers, the power to conduct research and the ability to make an official super-complaint about failing services.

We receive about a third of our funding from BIS. Funding also comes from licenses paid by energy suppliers and the postal industry. We are also able to raise our own funds – for example, through externally funded projects.

Introduction

Consumer Focus supports the rollout of smart meters as a way to end estimated billing – a major source of consumer complaints – and as a tool to help deliver public policy goals of carbon reduction, security of supply and affordable energy. We also see great opportunities around the improved delivery of social assistance to vulnerable and low income households.

However, we have consistently raised concerns that without the right regulatory framework, technology and the appropriate rollout mechanisms that smart metering could result in increased detriment for consumers and failure to realise the proposed benefits. Rollout needs to be delivered in a way that maximises meaningful consumer choice, drives down prices, and enables customers to make well-informed and effective purchasing decisions.

Specific questions

Question 1: Do you have any comments on our proposed governance and management principles or on how they can best be delivered in the context of the programme?

We have a number of general comments:

- We welcome the open and consultative approach adopted by Ofgem towards consumer groups to date. We agree that it is important that all partners have shared ownership of the programme. However, the current level of engagement makes it challenging, if not impossible, for customer representatives to fully participate in the process. Making information available should not be confused with engagement. We welcome the flexibility given to consumer representatives around the time pressures to respond to this written consultation. There are only a handful of consumer representatives working in this area compared to extensive well-resourced industry lobbies. Tight timescales restrict our ability to respond with a meaningful level of detail
- Care must be taken that the consumer voice is not lost as the programme progresses. We feel that the genuine collaboration that has been in place to date has been a key strength of the approach. We greatly value the Consumer Advisory Group and the dedicated workshops which have been organised to address customer concerns. We recommend that the issue by issue workshop approach is extended. Participation by both cross-sector industry and consumer representatives allows for views to be more rigorously tested. This is especially important going forward given the importance of customer engagement for the success of this programme
- Consumer Focus has concerns that key decisions such as those on functionality and rollout are being made while the business case and benefits realisation plan are still being developed. We understand the time pressures driving this approach and challenges around the interdependencies of decisions but believe the 'cart is being put before the horse' in some instances
- We have concerns about the unintended consequences of accelerated rollout. Care must be taken to ensure that the customer benefits are not lost in the rush to meet targets to put meters on walls. Consumers will be less concerned about when they get their meter than whether it works or not when it arrives. As a mandated programme it will be Government that is held responsible if things go wrong and if cost savings are not realised
- The programme will need to be kept under constant review. While we appreciate that reporting and monitoring leads to additional governance, cost, and places extra burden on suppliers, it will be critical for both the credibility of the programme, and to ensure benefits realisation. More emphasis needs to be put on reporting and monitoring prior to the mandating of rollout
- We would seek clarity as to who is ultimately responsible for the delivery of the benefits from smart metering. We recognise the Strategic Programme Board owns the business case, including the benefits case, but we seek confirmation that they are responsible for delivering cross-sector benefits to customers and taxpayers

- We welcome the presence on the Strategic Programme Board of ‘other Government Departments’ and Ofcom, thus encouraging a cross sector approach. We seek confirmation that this includes the full range of Government Departments that could benefit from rollout or might be impacted by it, including the Department for the Environment, Food and Rural Affairs (DEFRA); Communities and Local Government (CLG); Department for Business Innovation and Skills (BIS); Department for Work and Pensions (DWP) and the Department of Health (DH) in addition to the Department of Energy and Climate Change (DECC)
- We would also expect Ofwat and the Office of Fair Trading (OFT) to attend. OFT’s involvement is particularly important as Ofgem’s remit only extends to the supply of energy not energy products and services which are increasingly being offered to customers by suppliers. It is important that there are clear roles and responsibilities allocated to the respective regulators and the customer is clear who to go to and how to get redress when things go wrong
- Consumer Focus would welcome greater transparency around the risks *to consumers* that have been identified from different strategic approaches and the steps that are being taken to address them. Consumer Focus took part in the Office of Government and Commerce Gateway Review in 2009 but this appears to be quite a closed process. Given that this is a multi-billion pound project, the greatest accountability is required. We would urge Ofgem and DECC to heed the findings on this and related issues in the November 2009 Victorian Auditors Report in Australia¹ (see below):

Main findings

Project governance

The department’s project governance has not been appropriate for the nature and scale of the market intervention the project poses. In particular:

- its advice to government on risk assessment has been inadequate
- the level of community engagement has been inadequate, given the significant effect on consumers
- DPI has engaged with the project in only a limited way as an ‘observer’ during its implementation phase.

¹ *Towards a ‘smart grid’ – the roll-out of Advanced Metering Infrastructure, November 2009*
<http://bit.ly/eZVukc>

Question 2: Are there any other cross cutting activities the programme should undertake, and if so why?

Impact assessment/business case

Consumer Focus welcomes the commitment to continue to develop the business case. We strongly suggest that an assessment of the distributional impact of smart metering is carried out. In the DECC April 2007 *Appraisal for Costs and Benefits of Smart Metering*² the impact on fuel poverty was assessed, in line with Treasury Green Book guidelines³. We would question why a similar assessment has not taken place as part of the most recent Impact Assessment (IA). Consumer Focus believes that all consumers should benefit from smart meter rollout. If the costs of smart metering are spread across the entire customer base, all consumers will be expected to pay for it. There will be winners and losers from the proposed rollout. It is important to identify which groups might be adversely impacted to ensure that the appropriate policy interventions can be implemented. In particular vulnerable and low income customers must be protected from any additional hardship that may result.

Further consideration must be given to the wider potential consumer and tax-payer benefits of smart metering especially the social impacts. This should include:

- a. The potential to dovetail any water meter rollout with smart meter rollout, particularly in water stretched areas – thus resulting in bill savings to water consumers
- b. Any potential to support wider public policy goals such as the Digital Britain agenda – this could influence decisions around communications
- c. Opportunities to more efficiently deliver assistance to low income and vulnerable consumers. For example, linking up with national or local fuel poverty programmes or providing extra help during the installation visit
- d. Possible cost savings to the National Health Service (NHS) – decisions on functionality must not preclude the delivery of remote health services which could reduce the burden on the NHS, increase customer convenience and enable people to live independently in their own homes for longer
- e. Non-monetised benefits eg improvements in customer service and convenience to prepayment meter (PPM) customers – not just the inclusion of the gas valve, but general functionality on meters and displays
- f. Opportunities to promote greater competition in the energy supply market, energy services and smart homes

The IA notes potential benefits to consumers in the form of more innovative products and services, lower prices and increased choice. We query what assessment has been made of the potential risks from changes to the retail market as a result of smart metering. For example:

- increasingly complex tariffs hindering effective switching decisions
- growth in long-term contracts locking in consumers
- persistent problems with interoperability and resulting barriers to switching
- the overall weighting given to consumer issues

² *Appraisal for Costs and Benefits of Smart Metering: Roll Out Options, Final Report*. April 2007. Mott MacDonald <http://bit.ly/hIAhPw>

³ HM Treasury. *The Green Book. Appraisal and Evaluation in Central Government*. <http://bit.ly/fbEXke>

A further point is the significant assumption that suppliers pass 100 per cent of the costs and benefits onto consumers; experience in several other parts of the energy market (like falls in wholesale prices) suggests that this is an over-simplification.

Consumer Focus continues to believe that further consideration should be given to assessing the impact of a network-led rollout. We recognise that any move away from the supplier-led model is going against a strong tide but still firmly believe that a proper assessment should be carried out. The distribution network led model arguably lends itself more easily to the delivery of public policy and consumer benefits.

For example:

- The approach best lends itself to a co-ordinated regional rollout and the efficiencies and cost savings that could result. Frontier Economics suggests that such an approach could result in almost a further £3 billion in cost savings⁴
- Separation of supplier sales and marketing activities and distributors' rollout activity not only maximises customer buy-in and trust but also ensures that energy suppliers are not given an unfair competitive advantage in the delivery of energy products and services
- There would arguably be more transparency and regulatory oversight in relation to costs and savings passed on to consumers and potentially less financial uncertainty
- It may be easier to manage and develop a smart grid to achieve Government aims of security of supply and a low carbon economy. As well as exploit synergies with water meter rollout and local and national energy efficiency and fuel poverty programmes
- Existing problems with interoperability could be overcome without jeopardising meaningful competition. Most competition and innovation around metering is expected to come from communications and services linked to the meters not the meters themselves

Stakeholder engagement

In addition to the comments in Question 1, Consumer Focus has concerns that the range of stakeholders invited to the task groups is too limited and could unintentionally serve to entrench the position of existing players in the energy market. Up to now Ofgem's activities have in their words 'focused on the consumer perspective, as well as industry participants who will take on the responsibility for the delivery of the smart metering system'. While we appreciate the challenges of managing and accommodating greater numbers of stakeholders, we would recommend a broadening of the membership of these groups to include potential new players in the market, for example, high street retailers and telecoms companies. We see the rollout of smart meters as an opportunity to stimulate real competition in the energy market – to improve customer service, choice and drive down costs. Care must be taken that this opportunity is facilitated and not missed.

⁴ *Less is more? How to Optimise the Smart meter Roll-out*. Frontier Economics. January 2008. <http://bit.ly/cliQ5S>

Question 3: Do you agree with our proposal for a staged approach to implementation, with the mandated rollout of smart meters starting before the mandated use of DCC for the domestic sector?

We have real concerns about unresolved interoperability issues. If customers have to get a new meter, display or in-home communications network in order to switch supplier this will result in additional cost, inconvenience, and act as a barrier to them moving provider. This also has implications for wider competition. A thorough risk assessment should be carried out.

Question 4: Do you have any comments on the risks that we have identified for staged implementation and our proposals on how these could best be managed?

There are further risks that need to be considered:

- PPM customer issues should be a higher priority when deciding functionality for meters and displays. The risk is that their customer experience will decline rather than improve
- More emphasis is needed on protecting consumers ahead of the spring 2010 package. As with remote switching and disconnection, interim guidance is needed around sales and marketing activities, time of use tariffs, data protection and privacy and back billing to protect consumers. Consumer Direct is already starting to report some concerns. There should also be effective reporting and monitoring prior to Go-Live to ensure appropriate regulatory oversight. There is more detail on this in our October response to the Consumer Protections consultation
- Customers who get smart meters early are at risk of getting a poorer service than those who receive one later in the programme. This is particularly the case for low income and high debt risk customers and unfair given that they are likely to pay the same amount towards the meter and may not have requested one
- Minimum standards for the installation visit including information, advice and support during installation should be established as soon as possible. The quality of the home visit is crucial. In practice a significant proportion of smart meters installed in the interim period are likely to be as a result of ongoing supplier led activities not customer pull eg recertification of meters, new builds, switching to or from prepayment (See our response to the Strategy Consultation Question 2). Some of these customers may be reticent about having a meter installed
- There is currently no strategy in place to deliver the consumer benefits of smart metering, yet some suppliers are already installing the meters. Energy savings represent more than £6 billion of the benefits to consumers yet there appears to be very little understanding of the steps needed to deliver behaviour change that underpins this. We recommend the setting up an independent body to develop a customer engagement strategy including co-ordination of rollout where required. (See our response to the Rollout Strategy consultation Question 4). This needs to be a higher priority
- We recommend that an independent body be set up which is jointly responsible for both an agreed level of co-ordination, as well as engagement/behaviour change, as these areas are intrinsically linked. This would be an extension of the proposal for Rollout Strategy Question 4. Full rationale for this approach is outlined in that question. We recognise the challenges of any kind of central body as part of a supplier-led rollout but believe that it will be necessary to deliver the business case

- Linked to the above – customer trust is fragile and there is potential for confusion. Without customer acceptance and engagement, the programme will fail to deliver the required outcomes. Immediate steps are needed to address customer concerns and enquiries. (See our response to the Rollout consultation Question 4). As a first step, this should include common messaging around smart meters – What they are? Why they are needed? Why are they being rolled out? And responses to key concerns whether they are unfounded or not, such as smart meters being a spy in the home, radiation from meters being ten times stronger than mobile phone masts. Key information should be distributed to front line advisors – both public bodies and suppliers’ own staff. This would be a role for the above body
- As mentioned in Question 3 – issues around interoperability, stranded assets and meters being installed that do not meet the proposed minimum specifications have yet to be resolved
- Security/reliability of communications and new technology has yet to be verified
- Data privacy and protection issues seem a long way from resolution and we have concerns that current supplier practices could result in detriment to customers. Consumer Focus has recently issued a statutory information request to establish if supplier practices comply with existing data protection legislation and the European Convention of Human Rights, Article 8, Right to Privacy

Question 5: Do you have any other suggestions as to how the rollout could be brought forward, including the work to define technical specifications, which relies on industry input?

No. We are more concerned that meters are already being installed without the appropriate consumer protections in place or the regulatory framework to ensure that they deliver the potential benefits. We seek reassurances from Government that emphasis on accelerated rollout will not result in corners being cut on consumer protections or failure to deliver the full customer benefits.

Question 6: Do you agree with our planning assumption that a period of six months will be needed between the date when supply licence obligations mandating rollout are implemented and the date when they take effect?

This is a question for industry. We would expect that large scale contracts for metering and communications equipment are not likely to be agreed before the licence obligations are implemented.

Question 7: Do you have any comments on the activities, assumptions, timings and dependencies presented in the high-level implementation plan?

We have nothing to add to our existing comments on rollout, protections and implementation in the related smart metering consultation responses.

Question 8: Do you have any comments on the outputs identified for each of the phases of the programme?

As mentioned, Consumer Focus has real concerns that key decisions such as those on functionality and rollout are being made while the IA and the benefits realisation plan is still being developed. We understand the time pressures driving this approach and challenges around the interdependencies of decisions but feel the cart is being put before the horse in some instances.

Much more emphasis is needed in the outputs related to delivering the consumer benefits and the overall net benefit for Britain PLC. This is worryingly absent from the outputs identified in each phase of the programme. It should be clear how 'outputs' are going to actually deliver cost effective results and behaviour change. Our fear is that the approach is so process orientated that the programme risks losing sight of what it is actually trying to achieve and the reason behind a Government mandate.

In terms of protections, we reiterate that close to two million customers are expected to have smart meters installed prior to official Go-Live date. We seek reassurances that monitoring and reporting of smart meter installations is already taking place and that there will be appropriate regulatory oversight during this early period.

As mentioned, an engagement strategy must be developed as a priority – See Questions 1 and 4 of the Rollout Consultation response. We are sceptical as to how much meaningful partnership work will spontaneously take place between suppliers, local authorities and other groups without any kind of obligation. Suppliers' interests may not necessarily be aligned with consumer or broader industry interests.

Different engagement and coordination approaches should be piloted to provide a benchmark against which the effectiveness of the supplier-led rollout can be measured.



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