



**Consumer  
Focus**  
Campaigning for a fair deal

# **Consumer Focus response to the draft BEAMA consideration paper for SMDG Sub Group 1**

**22 December 2010**

# About Consumer Focus

Consumer Focus is the statutory consumer champion for England, Wales, Scotland and (for postal consumers) Northern Ireland. We were formed by 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.

# SMDG Sub Group 1: IHD additional functionality possibilities

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The following is Consumer Focus's response to the draft British Electrotechnical and Allied Manufacturers Association (BEAMA) consideration paper for Smart Meter Design Group (SMDG) Sub Group 1 (31 October 2010) regarding a) the replication of the prepayment meter (PPM) button functionality and PPM displays, and b) the ability for suppliers and network operators to send messages to the in-home display (IHD). It should be noted that we are invited to SMDG Sub Group 1, and attend when resources permit, but the above mentioned paper does not reflect consumer views.

## General

It is worth noting that Consumer Focus pressed for the provision of a separate mandatory IHD being provided to all households, to ensure that all consumers, regardless of income, are able to access the benefits of smart metering. The display plays a key role in giving customers access to information that they need to better manage their energy use and reduce their consumption. This is a key part of the business case for roll-out. We also believe that every opportunity should be taken to use the IHD to improve customer service in the energy market and to future proof the technology where the cost–benefit is positive. We recognise and support displays being an area for competitive differentiation among suppliers and also hope that there will be broader competition from wider retailers and other parties. But this should not detract from the need for minimum standards for displays to be set at a level which ensures all consumers have access to a high-quality, robust and easy to use IHD, not just those who can afford to pay for additional functionality. This approach informs our response below.

We have concerns that it is arguably not in the interests of the vast majority of SMDG members to ensure that a high-quality display is delivered, as there are greater commercial opportunities if the mandatory display falls short of customer requirements. Decision-makers should be mindful to ensure that the 'government display' is not considered second rate.

## a) Replication of the prepayment meter button functionality and prepayment meter displays

### Background in relation to PPM customers

Consumer Focus has consistently focused on the need for the smart meter roll-out to benefit PPM customers and help revolutionise competition in this market. Our key aims have been that smart metering reduces the cost of prepay tariffs, and results in improvements in customer service, in a sector which has long been marred by high levels of customer dissatisfaction and relatively high-cost tariffs.<sup>1</sup> We also see opportunities to enable increased choice for all consumers, with a greater array of attractively priced prepay tariffs becoming available. It is crucial that smart meter roll-out does not lead to any reduction in the quality of experience for any PPM customers or any increase in costs to serve. Consumer Focus, Which?, National Energy Action and the Fuel Poverty Advisory Group outlined this as a key issue in our recent priority paper requested by Energy Minister Charles Hendry MP.

### Customer interest in pay-as-you-go energy

The paper notes that there is an expectation that more consumers will move to pay-as-you-go (PAYG) energy tariffs as payment options become easier and more accessible. Consumer Focus research (March 2010) found that at least a third of consumers would be interested in prepay energy tariffs if the cost was competitive with Direct Debit and customers could top-up easily as with mobile phones. This research was shared with the Department of Energy and Climate Change (DECC) as part of the informal consultation on gas valves earlier in the year and is available on request. It shows that interest in prepay energy tariffs is highest in the under 34 age group and declines with age. As this generation ages and stigma associated with PPM use declines among the older generation, interest in prepay energy might grow further.<sup>2</sup>

Experience in Northern Ireland, where prepayment has grown in popularity since the introduction of semi-smart meters, also suggests that where price is competitive there is significant consumer interest in PAYG. Around 30 per cent (230,000) of all electricity consumers were using the keypad PPM by mid-2009 with new connections continuing at the rate of 2,000 per month. About 58 per cent are on low incomes but 32 per cent are on middle or higher incomes including 17 per cent who are 'wealthy achievers' (Acorn classification). This is reportedly due to cheaper tariffs and a range of credit top-up facilities (including phone and internet) which have removed the stigma of prepayment. Also the provision of friendly credit which means that users cannot self disconnect at weekends or between 4pm and 8am.<sup>3</sup>

We believe that any decision taken on the IHD should consider not only the millions of existing PPM customers who could benefit, but also the potential prepay market.

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<sup>1</sup> See *Cutting back, cutting down, cutting off. Self-disconnection among prepayment meter users*, Consumer Focus, July 2010 <http://consumerfocus.org.uk/g/4lx>, in particular Annex 4: *Using smart technology to improve prepayment*. This is the biggest ever study of PPM energy customers. The study explored attitudes to this payment method, and the extent to which PPM customers self-ration or self-disconnect

<sup>2</sup> *Cutting back, cutting down, cutting off. Self-disconnection among prepayment meter users*, Consumer Focus, July 2010 <http://consumerfocus.org.uk/g/4lx>. These have not been adjusted to reflect market proportions of payment method and under-represent standard credit customers. Nonetheless, these are the overarching trends

<sup>3</sup> *Smart pre-payment in Great Britain*, Gill Owen and Judith Ward, Sustainability First. March 2010, p.15. This report was part sponsored by Consumer Focus

We have before us a unique opportunity to revolutionise the PAYG energy market, to bring greater choice to all consumers, as well as helping existing PPM customers, many of whom are disproportionately on low incomes and the least likely to be able to afford an upgraded display. It would be unacceptable for this opportunity to be missed.

### Consumer Focus's view on replication of PPM functionality

We do not support full prepayment functionality being a supplier choice and are sceptical about the potential for the competitive market to deliver benefits in this area without the mandating of minimum standards. The PPM market is notoriously uncompetitive with little incentive for companies to streamline processes, improve efficiencies or introduce new technology – a fact that has been recognised by Ofgem.<sup>4</sup> Every effort must be taken to remove barriers to using prepay energy and to facilitate competition in this market, particularly to ensure that low-income customers benefit.

Subject to any safety issues being addressed, as outlined in our response to the IHD consultation, we strongly support setting standards to ensure that not only are PPM functionality and information replicated on the IHD, but that steps are taken to improve the provision of information provided to PPM customers and the usability of displays. We agree with the paper that it would be useful to clearly define what this might entail in terms of functionality, usability and information.

Replication on the display would be particularly helpful for consumers whose PPM is in an inconvenient, but not inaccessible place, such as the under-stairs cupboard, outside the home or behind the fridge. Consumer Focus's research found that self-disconnecting households were more likely to have residents with an illness or disability (44 per cent). Not realising the credit on the PPM was low was the top reason given for self-disconnection (it was the main reason given by 36 per cent of consumers that had self-disconnected). Inconvenience of having to access the meter was also cited as a reason for self-disconnection.<sup>5</sup> In addition, many participants in the in-depth interviews had at least one of their PPMs located outside. An outside meter offers practical problems and inconvenience, particularly when it is dark or raining. It also means that the householders must make a conscious decision to check the level of credit remaining on the meter, and will not hear any warning beep when emergency credit is activated. An appropriately designed IHD should help to prevent this.

### Re-siting of meters

While we support replication of PPM functionality on the IHD this should not be instead of provision on the meter. Consumer Focus does not believe that the technology is yet reliable enough for customers to be solely dependent on displays to re-enable their supply or to carry out key functions such as topping-up. Anecdotally we have heard about in-home networks going down at peak mobile phone use times, and customers experiencing sporadic problems with the smart meter communications – on both home area networks (HANs) and wider area networks (WANs).

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<sup>4</sup> In the *Energy Supply Probe – Initial findings report*, 6 October 2008, p. 96, Ofgem noted 'The cost data provided to us by suppliers shows a wide range of operating costs per account, with the cost per account of the highest cost supplier around 90 per cent higher than those of the lowest – a difference of around £20 per account per year, or about 4 per cent of a dual fuel bill. Once again, this evidence is not consistent with an effectively competitive market, where we would have expected such material cost differences to have been competed away'

<sup>5</sup> *Cutting back, cutting down, cutting off. Self-disconnection among prepayment meter users*, Consumer Focus, July 2010 <http://consumerfocus.org.uk/g/4lx>. See section 3 on self-disconnection, p. 23

Customers will therefore still need easy access to their meter to carry out key functions directly. That is unless the IHD is hard wired and provided with a battery or some other mechanism which ensures that it remains on when credit has run out and supply is disconnected – see below.

The need for the customer to be able to easily reconnect their supply and top-up at the meter itself is particularly important given the current proposal set out in the Prospectus for replacing lost or damaged displays, where the supplier is only responsible for replacing the display for a 12 month period. Ofgem needs to seriously consider the complaint handling and redress mechanisms around prepayment in this context if this proposal continues. For example, if the customer is off supply because of a display malfunction and the display was older than 12 months, what would happen then? Who would be responsible for getting the customer back on supply and who would the customer contact – the display manufacturer or the supplier? Which regulator or ombudsman would the customer contact if they did not get resolution from their supplier or display manufacturer – Ofgem, Office of Fair Trading or Ofcom? Which rules would apply – those in relation to supply of energy, telecoms or provision of products? All of this needs much greater consideration. We suggest that the supplier has full and ongoing responsibility for the display they provide to avoid these problems.

Contrary to the BEAMA paper therefore, we do not see replication as resulting in a reduction of roll-out costs and time. We would still expect the existing meter to be relocated to a position that would be safe and practical to use for an existing PPM customer, where appropriate, at the very least. However, we believe that requiring this functionality on both the meter and the display should be reviewed annually as the technology becomes more reliable and has been appropriately tested.

We query the figures outlined in the paper that suggest it would cost £500 to re-site a meter. Much more work is needed in this area to establish the number of meters that would need relocating and prospective costs. We have been told by installers, that meters can be moved a couple of meters in either direction at marginal extra cost. Often it is only this slight adjustment that is needed for the meter to become properly accessible for the consumer. We recognise that such meter relocations will take additional time, but believe that the ongoing inconvenience avoided from a well-sited meter could far outweigh the upfront additional time spent in the home by the installer.

We support the need for an investigation to be carried out to determine the number of poorly sited meters, where it would not be safe and practical for the customer to use prepay.

### **Displays with batteries**

To further facilitate replication of PPM functionality on displays we urge Government to reconsider mandating the provision of displays with some kind of battery or back-up in addition to being mains powered.

We understand from Ofgem that the potential additional cost of a semi-permanent display – that is one that is plugged into a consumer mains supply, but rests in a cradle and can be portable, is in the region of 10p to £1. This depends on battery life when off supply, brightness of the screen, how often it is communicating etc. More research on the impact of this on customer satisfaction and engagement is needed. We have concerns for example that, for a mains powered display only, low availability of sockets, especially in low-income households, might also lead to it being refused or put somewhere which is less visible, and therefore less likely to be used.

## Information on displays

In order for a display to be prepay ready we suggest the following are mandated. This is based on some of the requirements for PPMs internationally<sup>6</sup> and our own research:<sup>7</sup>

- Current consumption information in kWh and pounds/pence
- Information on the standing charge
- Any debt recovery rate
- Level of debt remaining
- When emergency credit or friendly credit is being used
- The remaining credit available or amount of emergency credit used
- Whether the meter is operating in normal, emergency credit or friendly credit mode
- How to safely re-enable supply

Some of these functions will also be of benefit to standard credit customers and consideration will need to be given to those paying via third party payment schemes, such as Fuel Direct, and the needs of customers on managed credit tariffs.

## Use of prepay IHD

Steps should be taken to improve existing display usability for prepay customers. Our research found that PPM displays are so poorly designed that none of the people we spoke to used key information on their meter. For example, we understand that, on Quantum PPM meters, the consumer has to press a button over 30 times to access account information. In our recent qualitative research into attitudes toward prepayment,<sup>8</sup> none of those interviewed were aware that this information was available on their meter. This reinforces the importance of the displays being simple to use and key information on the amount owing being within a small number of clicks.

## Emergency/friendly credit

It is essential that PPM customers have access to information on the status of their emergency credit and friendly credit via their IHD. We recognise that the paper suggests that this adds approximately £1 to the cost. Our recent research found that emergency credit was used by 54 per cent of PPM customers. This was usually as a buffer zone, to bridge the gap between credit running out and having money available. As noted, it is also cited as a key feature of the success of prepayment in Northern Ireland. For others, the warning beep or the need to activate the emergency credit was a trigger to top-up. It was also used when consumers didn't have time to go to the shop and by those consumers who were simply disorganised or forgetful. When customers self-disconnected, this was often because they could not hear the low credit warning – as the meter was located outside the home or in an inconvenient location. Being able to see at a glance how much emergency credit they have used is critical to informing their decisions on the amount that they need to top-up and to help them to avoid disconnection.

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<sup>6</sup> *Smart pre-payment in Great Britain*, Sustainability First report, Gill Owen and Judith Ward, March 2010 <http://bit.ly/dzwEeM> (PDF 210KB) p. 22

<sup>7</sup> *Cutting back, cutting down, cutting off. Self-disconnection among prepayment meter users*, Consumer Focus, July 2010 <http://consumerfocus.org.uk/g/4lx>

<sup>8</sup> *Ibid*, p.12

Our research suggested that emergency credit is a particularly important safeguard for those on low incomes. We also found that consumers receiving benefits and those who had a PPM installed to collect debt repayments were more likely to have used the emergency credit facility than others in the wider population of PPM users.

Use of the emergency credit facility is also higher where one or more household residents have a chronic health condition (65 per cent) and where children are present in the home (62 per cent). Given this overwhelming evidence that vulnerable consumers are more likely to use emergency credit, it is important that customers have easy access to this function via their displays, particularly if it is easier to switch from credit to prepay and more consumers are expected to do so.

### Managed credit – future proofing

Consideration should also be given to the likely introduction of managed credit tariffs in a smart world and how this function can be used to help consumers on these new types of tariff – providing some form of future proofing. Suppliers have already mooted the potential for credit levels to be set at varying amounts according to the customer's credit risk. A key concern raised in the recent Ofgem workshop on remote switching and disconnection was how customers on new managed credit tariffs would be made aware that they were nearing the end of their available credit. Consideration should therefore be given as to whether this function would also be needed for managed credit customers to ensure they know what mode they are in and how close they are to their agreed credit limit. This is particularly the case if once a customer has used up their agreed credit amount they are either disconnected, face a penalty (as customers do when they go over agreed overdraft limits) or are put onto a higher rate tariff.

### Why should all consumers pay for functionality on displays that they may not use?

- As noted, it won't just be existing PPM customers that will benefit. The growth of the prepay energy market and new managed credit options will offer greater choice to all consumers and make this functionality relevant to a significant proportion of the population
- The majority of financial benefits to consumers identified in the impact assessment are expected to come from consumers changing behaviour and taking advantage of lower rate off-peak tariffs.<sup>9</sup> In practice PPM customers are unlikely to see the same cost savings as consumers on other payment methods as they tend to already be aware of their energy consumption. DECC estimates that gross annual reductions in demand as a result of improved feedback on use and cost of energy from gas PPMs are likely to be in the region of just 0.3-1 per cent compared to 1-3 per cent for gas credit<sup>10</sup>. At present it is assumed that the cost of smart metering will be spread across the entire customer base. In the interests of fairness it is necessary to ensure that there are also consumer benefits available to PPM customers. This is also in line with the European Regulators' Group for Electricity and Gas's (ERGEG's) draft best practice guidelines on smart metering which state that all consumers should benefit from roll-out. This is particularly important given that PPM customers tend to be disproportionately on low incomes and have historically faced overcharging

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<sup>9</sup> *Impact assessment of a GB-wide smart meter roll out for the domestic sector, 27/07/2010.*

Consumer benefits amount to £6.80 billion and include savings from reduced energy consumption (£4.47 billion) and load shifting/time of use tariffs (£1.13 billion)

<sup>10</sup> *Impact assessment of the GB-wide smart meter roll out for the domestic sector, 27/07/2010, DECC, p.28*

- Promoting prepay the market could also help deliver wider energy saving benefits outlined in the impact assessment. The introduction of a smart meter with a display and energy efficiency measures and support services should help customers reduce their energy consumption. Promoting PAYG energy could potentially deliver further energy efficiency savings. On average PPM customers use 8 per cent less electricity and 20 per cent less gas.<sup>11</sup> While this is likely to be in part due to financial constraints, the physical need to regularly top-up the meter provides an immediate driver for consumers to use less energy. This is something DECC should explore and of which Ofgem should be mindful

### Important – top-up time

We have particular concerns that for gas customers, the meter and IHD will only send messages to each other every 30 minutes. We seek clarity on whether this means that customers will have to wait up to 30 minutes for the credit to be added to the meter if using the buttons on the IHD. BEAMA state: 'It is not clear whether this will be acceptable'. If this is the case, we consider this to be completely unacceptable. Customers would need to be made aware that it is quicker to top-up at the meter and every effort must be made to avoid this scenario.

### Hard wiring displays

BEAMA suggests that an alternative solution would be to add a cable connection between the gas meter and IHD. We recognise that this may enable some customers to use prepayment where it might otherwise not be possible. However we have strong reservations about the potential cost of this and where that cost will fall – whether on PPM customers or the individual customer particularly where a PPM may be installed due to debt. In addition it would result in increased hassle and inconvenience to the customer given the likely disruption of hardwiring. We strongly recommend that Ofgem establishes the potential costs and consumer impact of this option and fully considers the implications.

### Safety issues – surround replication of PPM functionality

We seek further clarity on any potential safety issues as the paper appears to give contradictory messages:

*'Some suppliers have expressed concern in relation to safety and durable communication, at using the IHD buttons to remotely re-enable the supply.'* (page 4)

*'It would appear that there are no safety issues surrounding remote connection of supply for either gas or electricity. Remote gas reconnection has been available in the past, using a wired solution, and SG1 has no knowledge of any issues around providing the same with electricity.'* (page 5)

*'BEAMA would like to point out that there may be safety issues in using functionality in the IHD to remotely reconnect the supply.'* (page 7)

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<sup>11</sup> *Impact assessment of the GB-wide smart meter roll out for the domestic sector, 27/07/2010, DECC. Ofgem retail market probe*

## b) Messaging function

BEAMA concludes that messaging is too expensive to be a feature in all IHDs and recommends that it should be provided as a commercial variant as part of an enhanced IHD. We query the wide ranging cost estimates provided and request that Ofgem carry out an independent analysis before a decision is taken.

Consumer Focus believes that further research is also needed on customer interest and potential use of messaging. Certainly it is essential that:

- customers have account balance updates on their IHD – we agree that further definition is needed around what is meant by this. Contrary to the assertions in the paper it should be noted that in practice it would not be a case of this information being provided by post *or* by IHD. It should be available in both formats as some customers are likely to want a combination of these options
- the safety benefits of messaging and the benefits to low income consumers and vulnerable consumers are given the appropriate weighting eg customers being taken through how to re-enable supply step by step or notification of outages may offer particular benefits to vulnerable consumers
- messaging plays a role in helping customers realise the energy saving benefits identified in the impact assessment or cut costs on their energy bills

It is crucial that *if* messaging is not mandated, this is kept under review to ensure that low-income consumers, who may not buy a display with this functionality, are not at a disadvantage in terms of essential information provision and customer service. This is particularly important where it may hinder them accessing the benefits of smart metering.

## Summary

### Consumer Focus recommendations

1. Minimum standards should be set for IHDs to ensure that they are 'prepay ready' – including functions, information and usability. It should not be left to supplier choice. As a minimum this should include all the existing benefits of IHDs and seek to improve weaknesses in current displays and information provision
2. Every opportunity must be taken to:
  - improve the customer service offered and information provided to PPM customers
  - remove barriers to competition in this market
3. Further consideration is needed around:
  - the cost and number of meters that would need to be relocated to make them safe and practical for prepay
  - the cost of hardwiring displays and the implications of this eg where this cost might fall
4. Further research is needed into customer interest and perceived benefits of messaging, and an independent analysis of the costs involved should be carried out
5. Ofgem/DECC should consider mandating a portable display which is rechargeable and sits in a cradle, that can be plugged into the mains. This would help ensure that customers could continue to access their display, even if they have self-disconnected or have been remotely disconnected



## **Consumer Focus response to the draft BEAMA consideration paper for SMDG Sub Group 1**

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