

## Smart Metering Implementation Programme: Consumer Engagement Strategy

### Written response submitted on behalf of the Government's Fuel Poverty Advisory Group for England (FPAG)

The Fuel Poverty Advisory Group is a non-departmental advisory body, which consists of a chairman and senior representatives from the energy industry, charities and consumer bodies. Each member represents their organisation, but is expected to take an impartial view. The role of the Group is to:

- Consider and report on the effectiveness of current policies aiming to reduce fuel poverty;
- Consider and report on the case for greater co-ordination;
- Identify barriers to reducing fuel poverty, to develop effective partnerships and to propose solutions;
- Consider and report on any additional policies needed to achieve the Government's targets;
- Encourage key organisations to tackle fuel poverty, and to consider and report on the results of work to monitor fuel poverty.

**Note:** In view of the very specific nature of the subject topic the following is submitted **on behalf of the FPAG Non-Supplier membership**.

#### Context

1. The Government has a legally binding target to eradicate fuel poverty by 2016<sup>1</sup>. FPAG, as the Government's statutory advisory body on fuel poverty, wants to ensure that Government policies are doing all that is reasonably practicable to meet this target.
2. The Government's own estimate indicates that in 2012 there are 3.9 million households in England in fuel poverty<sup>2</sup>; however some members of FPAG have calculated that with the 2011 energy price rises this could now be as high as 5 million.<sup>3</sup> Almost 50% are pensioners and overall some 80% can be categorised as vulnerable.
3. The Government's Independent Review of Fuel Poverty<sup>4</sup> found that fuel poverty is a distinct and important issue. As part of the Review's conclusions, they established a 'Fuel Poverty Gap' which measures the average and aggregate depth of fuel poverty expressed as the difference between costs faced by the fuel poor and typical costs of achieving a warm home. The Review found that fuel poor households are paying

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<sup>1</sup> UK Fuel Poverty Strategy 2001

<sup>2</sup> Annual Report on Fuel Poverty Statistics 2012

<sup>3</sup> NEA estimate November 2011

<sup>4</sup> [http://www.decc.gov.uk/en/content/cms/funding/Fuel\\_poverty/Hills\\_Review/Hills\\_Review.aspx](http://www.decc.gov.uk/en/content/cms/funding/Fuel_poverty/Hills_Review/Hills_Review.aspx)



£1.1 billion more for their fuel compared to typical households across England. The fuel poverty gap clearly demonstrates the enormous scale of the problem.

4. The Marmot Review Team report<sup>5</sup> presented evidence on how cold homes lead to multiple health problems including excess winter deaths, respiratory health problems and mental health problems as well as an increased likelihood of poor educational attainment among children.
5. High energy prices have been the biggest driver in the increase in fuel poverty and the long term trend is for prices to continue rising. With every one per cent increase in energy prices, another 60-70,000 households are added to the number of households in fuel poverty<sup>6</sup>.
6. The recession, unemployment, plus the industry's investment plans estimated at c. £200 billion to 2020<sup>7</sup> and uncertainty over new generating capacity and energy prices will exacerbate the problem. FPAG remains deeply concerned that the costs and implications of the UK's transition to a low carbon economy have yet to be sufficiently explored. Meanwhile, the regressive means of collecting costs added to fuel bills to fund a range of related environmental and energy costs will continue to create consumer inequity. The most progressive approach to funding Government policy objectives would be through general taxation but equity would also be improved if costs were to be recovered on a basis linked to consumption. Initial research undertaken by FPAG reveals that 85% of fuel-poor consumers would benefit from a move to consumption-based cost recovery mechanism. The attribution of these and other costs to consumer bills to fund decarbonisation of energy production and its end use requires much greater exploration and transparency.
7. FPAG consider that Smart Meters offer an opportunity for households to take ownership of their energy usage and to fully understand how their energy bills work. However for some consumers, particularly the fuel poor, there is concern that without the right messaging these groups will not be able to access the benefits that Smart Meters have to offer. At present over 80% of people do not feel they have sufficient knowledge regarding Smart Meters with a quarter of people concerned about how suppliers will use the information that is gathered by the meter.<sup>8</sup> It will therefore be essential that there is a simple and cohesive engagement strategy ensuring that the full benefits of Smart Meters are not lost.
8. The Public Accounts Committee has stated in their recent report regarding Smart Meters that "Consumers will benefit from smart meters only if they understand the opportunity to reduce their energy bills and change their behaviour. So far the evidence on whether they will do so has been inconclusive."<sup>9</sup> Smart Meters on their own will not change behaviour or reduce consumers' energy bills; it will be the information and support that is provided alongside the installation of the Smart Meter and In-House-Display unit that will be key.

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<sup>5</sup> The Health Impacts of Cold Homes and Fuel Poverty, written by the Marmot Review Team for Friends of the Earth, published in May 2011

<sup>6</sup> DECC fuel poverty impact assessments 2010

<sup>7</sup> Ofgem Project Discovery

<sup>8</sup> Research by USwitch - <http://www.easier.com/100637---households---in---the---dark---about---smart---meters.html>

<sup>9</sup> Public Accounts Committee, 2012, *Preparations for the roll out of smart meters*.



9. In addition, a recent poll by Accenture found that only 16% of people trusted suppliers to deliver messages on energy efficiency.<sup>10</sup> It will therefore be essential that the Central Delivery body is one that can be trusted to not only to install the Smart Meters but to provide the support that those in fuel poverty need to make their homes more energy efficient.
10. There will be over 53 million gas and electricity Smart Meters fitted by 2019.<sup>11</sup> FPAG would like to see a joined up strategy between Smart Meters and the energy efficiency policies across DECC, particularly the Green Deal and Energy Company Obligation programme to ensure that when suppliers are entering consumers homes, the opportunity to make the property more energy efficient, especially for those in fuel poverty is not lost.
11. The National Audit Office in July 2011<sup>12</sup> estimated the total cost of installing and operating smart meters during the next 20 years to be £11.3 billion. As this will be funded through customers' bills, on top of other projected price rises, it is important that all households, including those in fuel poverty, can access the benefits.

### **Recovery of costs through consumers' bills**

12. The typical dual fuel bill is estimated to be £1,300 per annum and includes some £80 per annum in social and environmental programme costs. It is inequitable that such costs are recovered through bills and even more so when some environmental costs are apportioned on a per household basis; a more equitable approach would be based on energy consumption. Some 85% of low-income households would benefit from this approach.
13. The costs of some energy policy measures are recovered from taxpayers – for example the Carbon Capture and Storage demonstration projects and the new Renewable Heat Incentive. However, there has been a growing trend to 'outsource' this activity to energy companies and make them responsible for delivering a range of Government climate change and social policy objectives. The funding for this is collected through consumers' energy bills. Initiatives, the costs of which are passed through to electricity consumers, currently include: Renewables Obligation (RO); Feed-in Tariff (FiT); European Union Emissions Trading Scheme (ETS); Warm Home Discount (WHD); Community Energy Saving Programme (CESP); and Carbon Emissions Reduction Target (CERT). The costs of CESP and CERT are also passed through to gas consumers.
14. FPAG has two main concerns about these costs being imposed on gas and electricity bills. Firstly, it is much more regressive to recover such costs from energy consumers than from taxpayers because the poor spend disproportionately more of their income on energy bills. Secondly, the way in which the costs are attributed and thus how they are passed through to consumers emphasises this inequity.
15. But even when costs are collected through bills rather than taxation, the basis on which costs are collected by energy suppliers varies according to the way in which

<sup>10</sup> Accenture, 2010, *Achieving high performance in the home energy services market*

<sup>11</sup> [http://www.decc.gov.uk/en/content/cms/tackling/smart\\_meters/smart\\_meters.aspx](http://www.decc.gov.uk/en/content/cms/tackling/smart_meters/smart_meters.aspx)

<sup>12</sup> National Audit Office: "Preparing for the roll out of Smart Meters" 30 June 2011



Government requires them to meet the policy objectives. Costs of the RO, FiT and ETS fall upon suppliers according to the amount of energy consumed by their customers. Assuming costs are recovered where they fall, companies would be likely to pass the costs of meeting these policies through to consumers on the basis of units of energy consumed.

16. By contrast, the costs of the Warm Home Discount scheme, CERT and CESP are attributed to suppliers according to their market share and, accordingly, companies would be likely to pass on the costs of these policies at a fixed rate per customer, regardless of the level of customers' energy consumption.
17. FPAG believes that if costs must be recovered through energy bills, it would be more equitable if costs were to be recovered on the amount of energy consumed rather than as a flat rate per household. However, a small percentage of low-income, high energy users would be adversely affected by this approach. To redress this effect, FPAG proposes that policies, such as the Energy Company Obligation, should encourage suppliers to target support at vulnerable consumers with high levels of energy consumption. The Warm Home Discount could also be re-designed so that help is directed towards households most affected.
18. Smart Meters would facilitate accurate measurement of a household's consumption and support this approach. In addition, by adding the costs on a per kilowatt basis it would encourage take up of other schemes such as Green Deal alongside the installation of a Smart Meter.

## **Response**

### **Chapter 2 Introduction**

1. **Are these the right aims and objectives (paragraphs 2.12 – 2.13) against which to evaluate the Government's consumer engagement strategy for smart metering? Please explain your views.**

FPAG believes that as all consumers will be paying for the installation of smart meters it is important that they also see the benefits of such technology. Hence, FPAG is encouraged that 'ensuing vulnerable and low income consumers can benefit from the roll out' of smart meters is a declared intent.

### **Chapter 3 Effective consumer engagement**

2. **What are your views on focusing on direct feedback, indirect feedback, advice and guidance and motivational campaigns as behaviour change tools? What other levers for behaviour change should we consider? (See also Appendix 1.)**

As an advisory body FPAG does not hold views as to which method of feedback would be appropriate. However, it does consider that methods should be chosen dependant on the consumer concerned and their individual needs in order to fully engage with the technology. A principle of "inclusivity by design" will also assist with ensuring that the in home displays and other technology associated with the smart meter roll-out will be usable by most types of consumer. Such an approach, for



example, would ensure that the basic functions (of most importance to consumers) of an IHD are easily and clearly accessible.

**3. What are your views on community outreach as a means of promoting smart meters and energy saving behaviour change?**

If people are to realise the benefits of Smart Meters, they will have to trust the person delivering the messaging and installing the Smart Meter. One way to ensure that consumers take on board the messaging is for Suppliers to engage with trusted 3<sup>rd</sup> parties such as a community organisations or local authorities. FPAG would encourage this engagement and partnership working especially when Suppliers are entering vulnerable households such as the elderly or disabled. It is also worth noting that many vulnerable households may need more than one visit to ensure they can realise the benefits of smart meters and trusted third parties would be an effective and cost effective means of providing this support.

**4. Have the right evidence requirements been identified for Foundation learning? What other evidence or approaches to research and trialling might we consider?**

It is unclear to FPAG, at this stage, whether prepayment functionality will feature as part of the foundation phase. Increasingly, it would appear that little development has taken place on this important functionality. Furthermore FPAG anticipates that different types of prepayment such as managed credit and debit, will feature very strongly in a smart meter future and hence that potentially more of FPAG's 'constituency' may be subjected to such methods. FPAG is, therefore, of the view that thorough trialling of such functionality should be undertaken before the major roll out commences.

#### **Chapter 4 Delivering consumer engagement**

**5. What are your views about the desirability of the Programme, or other independent parties, making available information on different suppliers' installation packages and their impacts? When might this best be introduced?**

The success of a consumer's smart meter 'journey' will determine the level of their interest in smart meters. FPAG is concerned that, with each supplier offering a different package, consumers will become overwhelmed by the complexity of the different packages and disengage from the programme. This has been a problem encountered in the delivery of the Carbon Emission Reduction Target. There is a need for effective co-ordination and simplification of messages, particularly for fuel poor and vulnerable consumers who are already reluctant to engage with the energy market.

**6. Do you agree that a centralised engagement programme, established by suppliers with appropriate checks and balances, is the most practical solution given other constraints? If not, what other practical alternatives are there?**

FPAG agree that a central engagement programme is required to facilitate consumer engagement with Smart Meters and that all parties should play a role including



Government, Ofgem, suppliers and the voluntary organisations. In particular, the Government should set out the minimum features that such a programme should contain and be ready to step in and provide further direction if suppliers do not develop an effective programme. This is particularly important both to realise the benefits and to ensure that consumers' money (as it is consumers who will pay for the engagement programme via their bills) is used effectively.

- 7. Do you think that suppliers should be obliged through licence conditions to establish and fund a Central Delivery Body or would a voluntary approach be preferable?**

If the Central Delivery Body is to be funded by an obligation on suppliers, this should be reflected in the Licence conditions to ensure certainty and accountability for the programme.

- 8. What are your views on the proposed objectives for the Central Delivery Body? Are there any additional objectives which should be included?**

FPAG welcomes the objective to provide extra support to vulnerable, low income and fuel poor consumers. It is important that these consumers receive this additional support throughout the Smart Meter process, including choosing a package, installation and follow up. It is for these consumers that FPAG would like to see additional assistance regarding energy efficiency measures provided, to ensure they can maximise the benefits of Smart Meters. It is also important to ensure that the changes in functionality and prepayment processes are very precisely explored to ensure no unforeseen events occur as a result of the installation of a smart meter.

- 9. What are your views on the suggested activities for the Central Delivery Body?**

Again, FPAG recognise the importance of the activity of "engaging vulnerable and low income consumers to provide additional support in relation to the smart meter roll-out where needed". This activity should be linked with third sector organisations who can act as a trusted partner and support fuel poor and vulnerable consumers.

- 10. Do you have any views on mechanisms for monitoring progress and holding suppliers to account in delivering objectives?**

It is vital for the integrity of the scheme that suppliers can be held accountable for the programme. FPAG would recommend a review of the programme after the first year and regular reporting to Ofgem.

- 11. How can we ensure sufficient effort and funding to achieve the objectives is balanced against the need to keep costs down?**

It is very unclear as to how the costs of the smart meter programme will be monitored and what mechanisms will be put in place to ensure costs will not exceed those in the impact assessment. It is already apparent that some smart meters fitted to date will be removed as they do not meet the current specification. It is therefore important that the costs incurred can be kept to a minimum whilst still offering the required service to consumers.



- 12. Do you think contracting an existing organisation or setting up a new Central Delivery Body would be a workable mechanism for delivering consumer engagement? What are the advantages and disadvantages of these two options?**

No views

- 13. Do you think the objectives and activities of the Central Delivery Body described here will help deliver the aims of the consumer engagement strategy (see paragraphs 4.32 – 4.33)? Please explain your views. Do you have any alternative suggestions?**

The objectives and activities of the Central Delivery Body do complement the aims of the consumer engagement strategy. However, delivery will be dependent on whether the relevant expertise is employed and the engagement of trusted third party organisations. FPAG agree that the Board should be made up of independent representatives not affiliated to the suppliers.

- 14. How can we ensure that the Expert Panel attracts a sufficient level of expertise?**

No Views

- 15. Do you foresee any conflicts between this approach (particularly when structured in accordance with the information provided in the rest of this chapter) and competition law? If so, what are these and how might they be addressed?**

No views

- 16. Do you have any other comments on how a governance framework could be designed to ensure the appropriate balance as described in paragraph 4.35?**

No views

- 17. What role should smaller suppliers have, if any, in setting up a delivery mechanism for central engagement? What should the ongoing relationship between small suppliers and the central delivery mechanism be?**

No views

- 18. What role, if any, should network companies and communications service providers have in central engagement?**

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No views

- 19. Do you agree that the timings for the creation of a Central Delivery Body as set out above are achievable? Please explain your views.**

No views

**20. What are your views on the need for the Central Delivery Body to establish an outreach programme?**

If there is to be an effective delivery programme, the Central Delivery Body will need to establish engagement with third parties including voluntary organisations and local authorities. For this engagement to be efficient and successful, an outreach programme will need to be devised as a matter of priority.

**21. Should there be requirements for suppliers to share roll-out plans with the Central Delivery Body, and for the body to take them into account?**

FPAG appreciate the sensitivities around competition laws, however for the Central Delivery Body to have an effective awareness raising campaign, suppliers should be expected to share some high level roll-out plan. This would be particularly useful if there is to be an area based roll out of Smart Meters.

**22. Is there value in such a brand and if so, when should it start to be visible? Should suppliers or other stakeholders be able to use the brand on their own (non-central body) smart meter communications and if so, on what basis?**

FPAG strongly agree that the Central Delivery Body should have an individual brand, distinct from the suppliers; this brand should also be endorsed by Government and consumer organisations. By having a distinct brand, this would help to mitigate against the mistrust that consumers hold regarding energy suppliers at present.

**23. Do you agree that the licence conditions as drafted in Part A effectively underpin the policy intention to require energy suppliers to form a Central Delivery Body? Please explain your views.**

Yes.

**24. Do the licence conditions as drafted give the Central Delivery Body sufficient separation from suppliers to achieve the policy objectives as set out above? Do you have any specific comments on the Constitution, Members and Directors, and Independence sections of the licence conditions?**

FPAG agree that the Members and Directors of the Central Delivery Body should be independent representatives not affiliated to the suppliers. However, this should not prevent the suppliers from be held accountable for the programme.

FPAG has no comments in response to questions 25 - 35 on draft licence conditions and the non-domestic sector.

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## **Chapter 6 Enabling wider changes to the energy system and market**

**36. What are your views on whether the Government should, in due course, alter energy efficiency incentives in the light of new opportunities arising from smart metering? How might any such incentives operate?**

FPAG advocate a continuous evaluation of policies to ensure they are relevant to the consumer landscape and utilising new technologies as and when appropriate.

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