

Smart Metering Implementation Programme – Roll-out Team
Department of Energy & Climate Change
3 Whitehall Place
London
SW1A 2AW

10 November 2011

Dear Sir

Smart Metering Implementation Programme: licence conditions for a Code of Practice for the installation of smart electricity and gas meters (August 2011)

UK Power Networks is pleased to respond to the above consultation and provide views on the new conditions that would be added to electricity and gas supply licences. Please note that this response should be regarded as a consolidated response on behalf of UK Power Networks who operate three electricity distribution licence holding companies – Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc. For convenience, the three licensees are collectively referred to as “UK Power Networks” throughout.

I can confirm that this response is non-confidential and can be published via the DECC website.

UK Power Networks supports the Government’s commitment to delivering Britain’s low carbon future. We are fully committed to supporting DECC/Ofgem in developing our networks to meet these objectives, and planning for and supporting the delivery of the GB Smart Metering Programme. It is important, therefore, that the smart metering implementation programme should reflect the lessons learned from the previous large scale new meter rollouts – particularly the expansion of competition in 1994 and 1998. Both of these implementation programmes had some negative impact on customers through disturbance to customer billing and reduced customer (meter) service.

For customers, it is also important that commercial arrangements and suppliers’ obligations are clearly defined in advance of any significant trialling in 2013, to ensure that the need for future switching of meters – and the resulting negative impact on customer service – is minimised.

We have responded to the questions posed by the consultation in the appendix to this letter, however wish to emphasise that in order to ensure that meter costs are recovered over time, and on an efficient basis, it is important that there are clear and binding rules in place to ensure that agreed meter rental charges survive a change of supplier by the customer, with no adjustment to the level of the charges.

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Appendix

1. Are the overall objectives set out in the draft licence conditions appropriate?

The overall objectives set out in the draft licence conditions are appropriate; in particular, the proposal for a voluntary industry code of practice to be developed is soundly based. However, UK Power Networks believes that some of the principles proposed for the installation code of practice require further consideration by Government if:

- a. Consumers are to gain the full range of benefits of smart metering – including being aware of the opportunities which may be (or subsequently become) available to them for reduced energy costs;
- b. The opportunity for consumers to seek competitive offerings from other suppliers or service providers is not to be compromised; and
- c. The requirement for full commercial interoperability with regard to installed smart meters is to be ensured.

In particular (with reference to our response to question 4(1)):

- d. Marketing information might play an important role in meeting the objective that consumers should be made aware of the full range of benefits of smart metering. UK Power Networks does not believe that prior written consent from consumers need be a precondition to a supplier offering marketing advice during the visit (please see our responses to questions 4(2) and 5);
- e. While consumers might be willing to consider an up-front charge for a meter that exceeds the minimum technical specification, they might be unaware that, should they subsequently switch to an alternative supplier, it might not be possible for the incoming supplier to support that meter and/or continue to provide the additional benefits enabled by the enhanced functionality. This has two potential consequences:
 - i. Full commercial interoperability will be compromised if suppliers are unable to support an 'above minimum specification' meter installed by a previous supplier; and/or
 - ii. Having paid an upfront charge, the consumer might be reluctant to in future seek a competitive service offering from an alternative supplier who is unable to support the 'above minimum specification' meter installed by the previous supplier.

In general, UK Power Networks feels that Government should take reassurance from the fact that suppliers will be acutely aware (including from well documented experiences of smart meter rollouts in other countries) of the potential impact of bad publicity on the rollout programme. As such, UK Power Networks believes that suppliers will take all practical steps to ensure a positive consumer experience and will be most unlikely to put at risk their reputation through any accusation of inappropriate sales and marketing activity.

2. Would the licence conditions as drafted effectively underpin:

- a) the intended roles of Ofgem and suppliers in establishing and reviewing Code(s) of practice for domestic and micro-business sites?**
- b) an appropriate ongoing governance regime for the Code(s) of Practice?**
- c) the intended arrangements for monitoring and compliance with Code(s)?**

The licence conditions, as drafted, provide the required framework to underpin the above objectives. UK Power Networks agrees that the installation code of practice – referred to under the draft licence conditions as the Domestic Installation Code and the Installation Code – should be developed as soon as practicable after the licence conditions have come into effect during the first half of 2012, and then be subject to continuous review during the course of the installation programme.

Regular reviews of the code would ensure that lessons learned during the early stages of rollout are brought to the attention of all suppliers and any changes immediately applied to the remainder of the installation programme. Indeed, it should prove beneficial for initial drafts of the code (prior to submission) to be informed by experience gained during the Foundation Stage of the rollout programme.

In order to facilitate regular reviews and continuous improvement, a pragmatic rather than bureaucratic procedure for updating the code is called for. It is important to recognise that suppliers have a vested interest in ensuring that the code is fully effective in protecting consumers' interests and hence in avoiding adverse publicity which might then affect suppliers' abilities to secure appointments to install smart meters.

UK Power Networks therefore supports the Government's proposal that, for domestic and small non-domestic consumers, suppliers should be obliged by licence to produce an installation code of practice, having taken account of the views of the National Consumer Council (Consumer Focus) and other interested parties through a robust but pragmatic consultation procedure, and to demonstrate to Ofgem that such views have been appropriately considered in drawing up the code (or revisions thereof) for Ofgem's approval.

UK Power Networks also agrees that suppliers should put in place their own procedures for monitoring and arranging appropriate independent verification and auditing their performance against the code, since it is in suppliers' direct interests to do so.

3. Should the licence conditions underpinning a domestic Code also be applied to smart-type meters, or should the Government work with suppliers to secure voluntary application of Code provisions?

UK Power Networks agrees that the majority of domestic consumers who have already received a 'smart type' meter and/or who receive a smart meter prior to finalisation of the SMETS are unlikely to be generally aware that their meter is non-compliant with the SMETS.

More importantly, consumers who for example during the Foundation Stage of the programme receive a smart meter, should be subject to similar protection in respect of sales and marketing activity, and indeed in respect of privacy and security of personal data.

It would seem in any case to be potentially less burdensome on suppliers to not have to differentiate between licensed and voluntary applications of the code in respect of 'smart type' meters installed prior to the finalisation of the SMETS (some of which in any case might subsequently prove to be SMETS-compliant). As such, our expectation is that suppliers will apply the code voluntarily under all circumstances.

4(1). Would the licence conditions as drafted effectively underpin the policy intention that the costs of the installation of smart meter systems should be reflected over time in customer's energy bills, with no upfront or one-off charges?

UK Power Networks agrees that the costs of the installation of smart meters should be recovered over time through consumers' energy bills with no up-front or one-off charges. We note however that the Government supports the application of charges where consumers choose to have a smart metering system that exceeds the minimum technical specification. That being the case, it will clearly be important that such choices are fully informed and that consumers fully understand the additional functionality beyond that available through a (minimum specification) SMETS-compliant smart meter so that they can make valid judgements as to the added value vis-à-vis costs to the consumer that would ensue.

In order to ensure that meter costs are recovered over time, and on an efficient basis, it is important that there are clear and binding rules in place to ensure that agreed meter rental charges survive a change of supplier by the customer, with no adjustment to the level of the charges. Such full "commercial interoperability" is necessary to ensure that the original provider of the meter can have certainty in recovering their capital and hence be willing to make the initial investment in the meter. We believe that this is also necessary if there is to be non-recourse debt financing available for smart meter roll-out. Without certainty of meter rental charges, there is a danger that the smart meter sector will not be able to attract sufficient capital to finance the roll-out.

Moreover, in the event that a consumer agrees to, or is offered, a smart meter with enhanced features (i.e. above those required under the SMETS) which might be subject to up-front charges, it will be important to ensure that the consumer is aware that, should they subsequently switch to an alternative supplier, it might not be possible for that supplier to continue to provide the additional benefits supported by the enhanced functionality. In other words commercial interoperability might be precluded, with the result that the new supplier might then need to recover from the consumer, over time, the cost of any replacement smart meter and/or the consumer would no longer receive the benefits paid for under the upfront charge.

A particular concern here is since the SMETS is likely to evolve over the rollout period, then consumers receiving a smart meter later in the rollout programme might, for no upfront charge, receive an equivalent meter to an 'above minimum specification' smart meter installed earlier in the programme and for which a consumer may have paid an upfront charge.

4(2). Do you agree with our definitions of sales and marketing?

UK Power Networks, while fully supporting the principle that consumers must be adequately protected from inappropriate sales activity, also believes that an overly cautious approach to marketing could result in consumers failing to become aware of products or services that would be beneficial to them and which, in any case, are necessary to the fulfilment of the £7.12bn net benefit identified in DECC's impact assessments.

In this regard, it should be recognised that suppliers have a clear vested interest in ensuring that the rollout of the programme attracts no adverse publicity. Such publicity could have a serious negative impact on the programme which in ultimate cost terms would almost certainly negate any proceeds of sales conducted on the premises. For example, suspicions of pressure selling might well impact on suppliers in terms of being able to agree appointments, or appointments other than outside of normal working hours (if, for example, a householder were to insist on a colleague, partner or relative being present during the installation).

On that basis, UK Power Networks believes that while 'sales' activity should be subject to rigorous controls, the installation code of practice should not be drafted so as to place too many restrictions on 'marketing' activity.

5. Do you agree that prior written consent should be required for any face-to-face marketing or sales activity during the installation visit?

UK Power Networks does not have a strong view on whether there should be a requirement for prior written consent for any face-to-face marketing activity. However, UK Power Networks is concerned that a total blanket ban on any marketing activities could have a negative impact on the utilisation of the potential functionality of smart meters to reduce or flatten demand profiles, for example, energy efficiency, ToU tariff or home automation opportunities. As a consequence, suppliers would be unable to offer potentially valuable advice and many consumers might remain unaware of available service offerings or beneficial energy efficiency improvement opportunities.

6. Are any other measures required to protect consumers' interests in relation to sales and marketing during the installation visit?

UK Power Networks believes that neither sales nor marketing activity should be undertaken before or during the course of the actual installation work unless initiated by the consumer. Consumers will inevitably suffer disruption as a consequence of preparing for the installation, and particularly during the installation itself when electricity and/or gas supplies will be temporarily interrupted. Consumers might therefore be particularly vulnerable or 'off guard' during this time.

Once the installation is completed to the satisfaction of the consumer, and provided that the agreed appointment period has not, and will not, overrun (which might result in a consumer feeling under pressure if they have an important following commitment), then marketing activity limited to advice on energy efficiency and/or regarding any new tariffs that might be available to the consumer as a consequence of having a smart meter should not be precluded – provided that any further contact with the consumer in respect of advice or material provided is entirely at the consumer's request.

7. Would the licence conditions as drafted and/or existing rules deliver the policy intentions on customer information and advice, vulnerable consumers, avoiding undue inconvenience and complaint-handling?

UK Power Networks agrees that the licence conditions as drafted, together with existing provisions under the Gas and Electricity Acts and the Gas and Electricity (Consumer Complaints Handling Standards) Regulations, should be sufficient to support consumers' needs arising from the rollout programme. As such, no further specific provision, other than that which will be provided for under the Smart Energy Code and as a result of the Government's overall SMIP consumer engagement strategy, should be necessary.

8. Do you agree that, for the purposes of the non-domestic code, the sites to be covered should be defined as a business with no more than 10 employees or their full-time equivalent, an annual turnover that does not exceed €2 million, or consumes less than 50MWh of electricity a year or less than 200MWh of gas a year?

While the accepted industry definitions of micro-businesses were not derived from a smart metering installation code perspective, UK Power Networks would agree in principle that that this is a reasonable basis for determining which business smart meter installations should be subject to the installation code.

However, as the consultation notes, suppliers will not readily be aware of a business's turnover or number of employees. Given the scale of the rollout programme, it will clearly be impractical for suppliers to obtain such information in order to establish whether the code should apply. A more pragmatic approach would be to limit the applicability criteria to the annual energy consumption data. In practice, and as the consultation notes, suppliers are in any case likely to apply the code voluntarily and universally irrespective of whether the business falls within the definition of a micro-business.

9. Would the licence conditions as drafted effectively underpin the policy intentions with respect to non-domestic consumers on customer information and advice and undue inconvenience?

UK Power Networks believes that the licence conditions as drafted effectively underpin the policy intentions, recognising that non-domestic consumers should not need the same level of protection against sales or face-to-face marketing activities as domestic consumers.

UK Power Networks believes that the provisions under the installation code for non-domestic consumers should apply to any smart meter (or 'smart type' meter) installed during the mandated rollout period or during the Foundation Stage of the programme (noting that micro-businesses that already have an 'advanced meter' will not normally be offered a smart meter unless they specifically ask for one).

Of particular importance to businesses will be the need to minimise disruption during the installation, including ensuring that both the timing and duration of the necessary temporary supply interruption is in line with the consumer's reasonable expectations.

**UK Power Networks
10 November 2011**