

Octopus Energy
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London

19 October 2016

Smart Metering Implementation Programme Project Delivery Team
Department for Business, Energy & Industrial Strategy
3 Whitehall Place
London SW1A 1AW
Dear Sir/Madam

Smart Metering Implementation Program:

A Consultation on Smart Energy Code and Licence Amendments – September 2016

Please find attached our response to the above consultation.

We apologise for the delay in delivery but trust that you will still find our comments and recommendations of value.

Octopus Energy is an independent supplier that started supplying gas and electricity to domestic homes and businesses in Great Britain this year. We are backed by the Octopus Investments Group, who over the last decade have become the third largest investor into UK renewable generation in the UK and the largest in solar generation.

Octopus Energy is proud to have contributed to recent historic levels of switching amongst domestic customers. Also in our quest to deliver customer fairness, we have made national headlines as a result of highlighting the ‘tease-and-squeeze’ tactics of the large suppliers. Tease-and-squeeze refers to the sales practice of offering low tariff rates for 12 months (the period used by comparison sites) and then promptly moving customers to high SVTs (standard variable tariffs) at the end of this period, with a view to benefitting from customers’ lack of attention.

Octopus Energy is a technology-led supplier that believes in delivering long-term consumer value and the highest customer service levels through the use of modern digital communications, supported by knowledgeable and approachable customer-focused staff. We therefore believe that smart meters, if correctly implemented, offer a significant opportunity to improve the engagement between suppliers and customers, thereby providing long-term value for the customer. However, the content of this consultation will potentially embed serious flaws into the industry that will have long-term negative consequences for customers in terms of (1) reduced access to the competitive switching market combined with (2) inflated costs for customers and (3) poor customer experience.

1. Switching

In reviewing this consultation, Octopus Energy is particularly concerned that there is a thematic weakness in many of the principles and processes espoused herein. This weakness appears to stem from an underlying assumption that the market is essentially in a steady-state where change of supplier will be a rare event. In a dynamic market place this will be far from true. Any process which requires time to complete, such as ‘install-and-leave’, may compromise rapid switching if the required information cannot pass from the old supplier to the new supplier due to either commercial or operational restrictions.

It may be noted that anecdotal evidence already suggests that a high proportion of ‘standard’ smart meter installations (10 to 30%) fail to establish full smart functionality post installation. This is without the complexity of switching during an extended installation process, suggesting that install-and-leave will have considerably higher failure rates.

It should also be noted that where the completion of an installation occurs over multiple visits there will be excess costs beyond a ‘standard installation’. If these charges are aggregated and specifically allocated to that supply point (a situation anticipated in the supplier licence conditions) then it could result in the customer being unable to access competitive energy tariffs at any time in the future until they have their meter replaced (i.e. a second time) as part of a more efficient installation process.

2. Customer costs

Octopus Energy is very concerned that the development of the smart meter supply market – conducted through the business of MAPs (meter asset providers) is embedding unnecessary long term costs onto customers. Most importantly, when suppliers inherit a smart meter installed by another supplier they must negotiate with the existing MAP to ensure a fair rent for that meter. Current practice is that the

new supplier is offered a selection of take-it or leave-it contract terms, all of which are in excess of the rentals agreed under the initial installation contract with the originating supplier. In seeking to mitigate against excessive meter rental charges, the only commercial sanction available to the new supplier is the replacement of that working smart meter.

It is already accepted that a single 'standard' installation will result in individual consumer costs of up to £400. Where 'premature' meter replacement occurs, as described above, the total costs multiple installations will be considerably higher. While these duplication costs may appear to be absorbed by the industry, the reality is that they will inevitably be passed through to customers as a result of higher operating or finance costs. Alternatively, they may be allocated to that specific supply point potentially raising future tariff costs for that customer.

Consumer costs are further compounded by the requirement to provide and train customers on historic technology devices. While the IHD (in home device) was a good idea 8 years ago, it is now obsolete. The desire to maintain the IHD as part of the installation process is embedding more costs in terms of hardware, software, training and installation time.

3. Customer experience

The risks of multiple meter installs described above will lead to poor customer experience and potentially frustrate the objective to build a wide installed base of smart meters.

Customer disillusionment will be further compounded by the requirement to train customers on historic technology devices. While the IHD (in home device) is now obsolete in terms of customers' modern technology expectations. This confusion for both installers and customers will be exacerbated when the installation process overlaps a change in supplier such as during install-and-leave.

4. Recommendations

In order to maintain and improve the opportunity for customers to switch energy suppliers, while simultaneously preventing the accumulation of unnecessary costs and avoiding negative customer experiences, Octopus Energy therefore recommends:

- i. 'Install-and-leave' (both reactive and positive) should be avoided. In order to achieve this all smart meter installations should be preceded by an installation 'site-readiness' check to confirm the practicality of smart installation including the availability of the required communications channels (both WAN and device-to-device pathways within the premises). When supported by the appropriate prior customer engagement and on-site technology-based test devices, this readiness check should only take 10 minutes and will not require the expertise of a meter installer. No installation should be initiated until site-readiness is confirmed.
- ii. Ofgem keeps a central record of successful vs unsuccessful site-readiness checks to ensure a national picture of 'smart-readiness' is established.
- iii. Ofgem keeps a central record of occasions where a premise with deemed readiness still results in an unsuccessful implementation. Systematic issues should be investigated and appropriate remedies implemented.
- iv. Ofgem maintains a record of all occasions and explanatory reasons where formerly functional smart meters (under the old supplier) are replaced within 12 months of customer

- switching suppliers. Systematic issues should be investigated and appropriate remedies implemented.
- v. That the obligation to provide an IHD is replaced by an obligation to provide customer access to supply information through modern smart phone applications. Octopus Energy would be pleased to contribute technical resources to such an objective.
 - vi. Ofgem conducts a study to understand the proportion of current smart meters that are providing smart functionality to inheriting suppliers and investigate systematic issues for remediation.

In responding to the questions below we believe that comments confined to legal drafting may be akin to discussing the appropriate nails to seal the coffin. We have therefore focussed on practical implementation issues raised by the text. In detail:

1.1 Install and Leave

Q1. Do you agree that the legal drafting implements reactive I&L policy as proposed? Please provide a rationale for your views.

The current legal drafting does not fully implement the reactive I&L policy in that it only addresses those smart meter installations where there is no change of supplier between the start and completion of the installation process. In the event of a change of supplier event at that location, an incomplete installation will be inherited by the new supplier. It is unlikely that the inheriting supplier and their field force contractors will have the knowledge or hardware (e.g. a compatible IHD) to be able to complete the installation. This is clearly not just a matter of legal drafting but one of practicality.

There is a real risk that the customer will need to have their new smart meter immediately replaced or that they will not be able to benefit from some of the promised benefits or that they will receive inadequate training on their new meter. There is no doubt that the inclusion of the IHD as the final device in the installation process but one that is only familiar to the originating installer presents one of the most significant elements of the problem. In contrast a smart phone app which is familiar to the second installer and compatible with multiple meter types would provide a much smoother customer experience.

In any event, the result of multiple installation visits will be additional costs that may be levied on the customer, combined with poor customer experience.

In order to mitigate these concerns Octopus Energy has made a series of recommendations in the introductory section of this response and would be pleased to discuss them further with BEIS.

In practice these specific concerns attached to **reactive install and leave** are symptomatic of much broader issues attached to the roll out of smart meters. These broader issues result primarily from the fact that the interests of the installing supplier are not aligned and may indeed be in conflict with subsequent suppliers that inherit the meter. Furthermore, the originating provider of the meter assets (the MAP) has some, but potentially insufficient interest in the position of inheriting suppliers. This is because their primary obligation – and, most importantly, their opportunity to win the business in the first place – is to the contracting, originating supplier. In particular:

1. Lack of original contract transparency. The knowledge that the originating contract between the MAP and the installing supplier will remain confidential enables the exchange of economic rent between these principals in ways that may remain hidden but can distort the expected arm's length relationship between these parties. For example there is anecdotal evidence of contracts that include initial rent-free periods (which effectively back-load the rental into later years when it is more likely the supply point has switched to a new supplier) or 'cash-back' deals where the meter installation is deliberately over-funded in return for higher subsequent rental payments for all successor suppliers.
2. Lack of cost sensitivity. Even without the deliberate inflation of installation costs the established practice is that the MAP will pay for both the capital meter asset and the installation cost. Where the installation costs are internal charges within the supplier, any initial MAP payments are essentially a refund of operating costs. The originating supplier is therefore incentivised to maximise the labour contribution and certainly not to minimise it, resulting in higher rental charges for all successor suppliers to the benefit of the originating supplier.
3. The inclusion (or not) of the IHD as part of MAP funding and subsequent rentals. It is apparent that some MAPs will not fund (and therefore rent) IHDs, while others have done so. Clearly when IHDs are included in the MAP service this benefits the originating supplier at the expense of inheritor suppliers.
4. Since the installation costs are 'baked' into the MAP rental it is not clear how the rental costs will be properly calculated where the installation is performed across two different suppliers. The only practical commercial solution is likely to be that the inheriting supplier will have to replace all of the existing smart meter components, causing customer distress and more embedded costs for the industry and hence customers.

Under current (and expected future practices) all of these cost elements are typically aggregated (explicitly or implicitly) within the originating supplier-MAP agreement and the resulting contracted rental charge. When the customer switches, the new supplier inherits the meter and is offered the choice of whether to accept a term rental agreement – which has no clear relationship to the originating agreement – or accept 'interim/deemed' rental terms. The only commercial sanction is replacement of the meter, an unnecessary disruption for the customer.

In order to mitigate these concerns Octopus Energy has made a series of recommendations in the introductory section of this response and would be pleased to discuss them further with BEIS.

Q2. Do you agree with the proposed approach for the implementation of proactive I&L for new connections and replacement meters? Please provide a rationale for your views.

Octopus Energy does not agree with the proposed approach for the implementation of **proactive install and leave** for the following reasons:

1. The proposed approach does not consider the likely operational issues that will arise where there is a change of supplier between the initial install and the eventual availability of the WAN. It may not be possible for inheriting supplier to complete the installation on the basis of the previously installed equipment, when considering the knowledge and equipment available to the second installer, thereby necessitating a second meter replacement from scratch. The legacy costs from the first installation will inevitably be recouped by higher operational and financial charges being passed on to customers.

2. The proposed approach does not consider the customer issues that will arise where there is a change of supplier between the initial install and the eventual availability of the WAN. Any advice provided by the first installer may not be relevant if it is necessary to install a second meter replacement from scratch. This will cause customer confusion.
3. The proposed approach also does not consider the commercial issues that will arise where there is a change of supplier between the initial install and the eventual availability of the WAN. Current practice is for the meter installation charges to be funded by the MAP in return for long term rental. It is likely to be commercially impractical to spread the installation refund across two installing suppliers, thereby necessitating a second meter replacement from scratch. The legacy costs from the first installation will inevitably be recouped by higher operational and financial charges being passed on to customers.
4. The proposed approach incentivises suppliers to bulk install meters in regions where it is known that no WAN is available and leave them in an incomplete installation state, making it much more expensive for competing suppliers to take on these supply points. Every proactive install and leave supply point is therefore a 'poison pill' for competing suppliers. In practice this will Incentivise land grab tactics.

In order to mitigate these concerns Octopus Energy has made a series of recommendations in the introductory section of this response and would be pleased to discuss them further with BEIS.

Q3. Do you agree that the legal drafting implements proactive I&L policy as proposed? Please provide a rationale for your views.

Octopus Energy believes that the operational problems discussed under Question 2 must be resolved before completing legal drafting for this Question 3.

1.2 Maintenance of Smart Metering Systems

Q4.

Octopus Energy believes that the current legal drafting should be improved because the principles described under Section 32 offer potential for abuse. In certain circumstances the existence of an unusual device could void the whole maintenance process. We recommend that the term 'device' should be clearly defined in terms of the particular technical specifications that must be met by such devices to prevent the device 'tail' wagging the maintenance 'dog'.

1.3 Simplification of change of supplier information flows

Q5. No response.

2.1 Testing required to implement changes to the SEC

Q6. No response.

Q7. No response.

2.2 Enduring Registration Data Provider Entry Process Testing

Q8. No response.

Q9. No response.

2.3 Changes to the Enduring Testing Approach Document

Q10. No response.

2.4 Provision of variant Communications Hubs for Testing

Q11. No response.

3.1 Changes to Section N to support SMETS1 Enrolment and Adoption by the SEC

Q12. Octopus Energy supports the objectives of changes to Section N but does not agree with the proposed methodology. The current proposals appear to be based on the assumption that the Supplier parties reporting on 'their' meters are the same supplier that originated the installation of those meters. In a market with a substantial amount of supplier switching this will not be the case. Therefore small suppliers may not have access to the information requested and should not be penalised by having their meters excluded.

For many small suppliers the likelihood is that their meter portfolio will contain a wide variety of meter types, originated by a variety of other suppliers over several preceding years. The quality of information available to the small supplier is therefore likely to be highly variable. Some meter asset providers (MAPs) and some meter manufacturers may elect to be open and communicative even where no contract exists between the supplier and these parties. Others may elect to be much more secretive for their own commercial reasons. It may be noted that there are already anecdotal stories of non-trivial volumes of SMETS1 meters needing to be replaced (e.g. because of software problems) and yet there is no method for the industry as a whole, nor individual suppliers, to understand the known issues with meters that they have or may inherit.

The only business entities that have the highest likelihood of accessing the required information to meet the DCC requests are the originating/installing supplier and their MAP.

In order to mitigate these concerns Octopus Energy recommends that Ofgem establish a central industry database of SMETS2 meters and their known operational and technical issues. This database would be available to all suppliers that may inherit such meter installations.

3.2 Amendments to the Ofgem Significant Code Review

Q13. No response.

3.3 Privacy requirements

Q14. No response.

3.4 Making certain transitional variations enduring

Q15. No response.

3.5 Definition of Registration Data Provider Systems

Q16. No response.

3.6 Changes to the Supply Licence Conditions, the DCC Licence and the SEC to accommodate multiple versions of Technical Specifications and multiple versions of DUIS

Q17. No response.

Octopus Energy understands the objectives of Section 99 and desire to require changes to devices. However, in a dynamic switching market it is likely that suppliers will be renting meters from MAPs but will have no associated rental contract with those MAPs (or the underlying meter manufacturer) that would enable procurement and implementation of the required modifications on reasonable terms.

With regards to Section 126, Octopus Energy believes that the current legal drafting should be improved because the principles described offer potential for abuse. In certain circumstances the existence of an unusual device could void the whole maintenance process. We recommend that the term 'device' should be clearly defined in terms of the particular technical specifications that must be met by such devices to prevent the device 'tail' wagging the maintenance 'dog'.

Q18. No response.

3.7 Minor Miscellaneous Changes

Q18. [Sic] No response.