Action for Warm Homes

CONSULTATION RESPONSE

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NEA response to Smart meter policy framework post 2020: minimum annual targets and reporting thresholds for energy suppliers

About National Energy Action (NEA) and our work to support the smart meter rollout

NEA[1] works across England, Wales and Northern Ireland to ensure that everyone in the UK[2] can afford to live in a warm, dry home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, local projects and co-ordinate other related services which can help change lives.

NEA has a long-standing interest in smart meters and their roll-out in Great Britain and Northern Ireland, particularly with regard to their impact on vulnerable consumers. NEA believes that smart metering has the potential to provide real benefits for vulnerable and low-income householders, but only if these individuals are effectively engaged and supported throughout their smart meter journey. We have carried out the following research to inform the smart metering programme:

2013: Smart for All: Understanding Consumer Vulnerability During the Experience of Smart Meter Installation: NEA for DECC and Consumer Focus.

This report for UK Government was one of the first to look at consumer vulnerability during the experience of smart meter installation and provide recommendations on how to optimise the vulnerable customer smart meter journey. Following phase one, NEA was commissioned to examine more closely the support needs of vulnerable and low-income consumers that specifically relate to enabling and sustaining engagement with smart meters and in-home displays to maximise potential benefits. Fieldwork for the second phase of research took place during March 2013 and involved thirty-three participants from across the North East of England, Merseyside, East Midlands and London. The research adopted a qualitative approach and involved twenty-five in-depth interviews, predominantly by telephone and two focus groups.[3]

2014: Developing an Extra Help Scheme for Vulnerable Smart Meters Customers[4]: NEA for Citizens Advice.

This research looked at how suppliers and other stakeholders can help vulnerable consumers through the smart meter change. The rich detail of this research aimed to help delivery partners shape their plans; answering questions such as how to define vulnerability, the importance of choice, and the role of different communication channels.

2015 – 2018: SMART-UP[5]

This was an EU- funded project running across five countries. NEAs study sought to understand the impact tailored energy advice can have on the active use of a smart meter and in-home display (IHD) to manage energy consumption in vulnerable households.

Our research demonstrated that smart meters can benefit vulnerable and low-income households – but in most cases this requires additional support and advice. The study found that providing advice and support was successful in enabling vulnerable households to engage and understand their smart meter and in-home display, and with increasing the range of purposes for which people used them, as well as the frequencies with which tasks were carried out. Following the interventions householders were much more likely to use their smart meters and accompanying smart energy displays to undertake activities such as checking how much electricity they were using and setting budgets, and there were increases in the percentage of householders who were also making changes to how they used energy at home.

As well as our policy and research work, NEA has been involved in supporting the practical delivery of the programme:

2015 – 2018: Energywise[6]

NEA was a partner on the UK Power Networks-led project energywise; exploring how fuel poor customers can benefit from a smart meter and participate in energy saving and demand side response opportunities. The project successfully installed 230 credit smart meters and 93 prepayment smart meters in the homes of 323 social housing tenants living in the deprived borough of Tower Hamlets in East London. In targeting this group, the project generated valuable learnings on how to engage and support energy consumers identified by previous research as vulnerable to realising benefits from their smart meter and in-home display. Specifically: low income households, social housing tenants, prepayment meter consumers and those who do not speak English proficiently.

2016 – ongoing: Smart Energy GB in Communities

NEA, alongside our sister fuel poverty charity, Energy Action Scotland, leads part of Smart Energy GB's partnerships programme working at local and regional level with trusted intermediaries to engage people who might otherwise experience a barrier to engaging with the smart meter rollout. Activities include smart meter training to upskill advisors, grant funding for projects and free resources to support engagement activities. NEA's smart meter training aims to ensure advisors are confident and equipped to answer their client's queries about smart meters. Since the 'In Communities' programme commenced, NEA has developed and delivered smart meter training to 1,751 frontline professionals/volunteers who in turn have gone on to support thousands of vulnerable householders across Great Britain. Also, since 2016, a total of 300 large and small grants have been awarded to trusted partners, stimulating smart meter activities at a local and regional level, as well as demonstrating the positive and meaningful impact of direct, face-to-face engagement with vulnerable consumers.

NEA also continues to participate in the Consumer Reference Group (CRG); a forum set up by the Department of Business, Energy and Industrial Strategy (BEIS) under the Smart Metering Implementation Programme to provide advice and, where appropriate, solutions to mitigate consumer journey challenges arising from consumer experiences in the smart meter roll-out.

Summary of our views on the progress of the rollout to date

In response to the NAO's report[7] on the smart meter rollout meters we highlighted our concern that the smart meter roll-out is now significantly back-loaded. This means that most households have less opportunity to enjoy the benefits of smart (and any resulting financial savings) in the years up to 2024. The delay to mass deployment undermines the realisation of the benefits of the programme which still assumes cumulative benefits accruing year on year.

Since its inception in September 2013, NEA has welcomed the centralised consumer engagement that has been driven by Smart Energy GB. Their approach has helped ensure the rollout has used a variety of communications channels to provide a consistent and engaging message of the benefits of the rollout. Whilst NEA continues to work closely with Smart Energy GB, via the Smart Energy GB in Communities Programme to enable, encourage and support community groups to spread the word about smart, if there is a large delay between consumers being engaged by Smart Energy GB's mass marketing (or through our joint work via the SEGB in Communities programme) and when customers can expect to receive a smart meter, NEA continues to be concerned this lag will cause many people to become disengaged from the initiative or reduce access rates which could increase the cost of the programme.

In our response to the 2019 consultation "Delivering a Smart System: Consultation on a Smart Meter Policy Framework post 2020", we were sympathetic to the reasoning of extending the smart meter deadline to 2024. We also broadly supported the direction taken proposed in the consultation, but expressed concerns about the slow nature of the smart rollout for households with legacy prepayment meters, and proposed that there be a specific target for replacing legacy prepay in the new framework.

While we understand the difficulties with this proposal, we remain concerned and our response below sets out some different options for acceleration the smart meter rollout for households with legacy prepayment meters. NEA believes that upgrading prepayment meters is an important piece of the puzzle for creating a fair market, to protect the interests of consumers and create opportunities to reduce bills, a priority area as outlined in the Energy White Paper[8]. This belief is reinforced by the CMA energy market investigation findings[9] that legacy prepayment meter customers have higher actual and perceived barriers to switching that arise from both lack of internet connectivity and the need to physically change meter to switch to a wider range of tariffs (and associated perceptions of the complexity of this). In addition, they found that legacy prepayment customers are often likely to: have a poor credit history; be severely indebted or; be stranded on PPM due to the preferences of their landlords. The CMA believed that the best way to remedy this was to enforce a price cap for all prepayment metered customers which should be active until the smart meter rollout had been substantively completed for this customer set i.e. that the smart meter rollout would remove the market detriment that they found for legacy prepayment energy customers.

Subsequent to their findings, the CMA implemented the aforementioned price cap for prepayment energy customers, to be in operation until the end of the smart meter rollout (which as of then was 2020). Unfortunately, given the slower than expected rollout for the whole market (but especially for prepayment customers), the rollout was not yet complete as this CMA enforced price cap lapsed at the end of 2020. In 2019, the CMA recognised this and recommended that Ofgem continue to protect prepayment customers once the CMA's cap expires, given that the full roll-out of smart meters will not have completed by 2020.[10] As a result of this recommendation, Ofgem made a decision in 2020 to protect households with legacy prepayment meters on default tariffs through the default tariff price cap. While this decision gives legacy prepayment households price protection in the short term, the default tariff price cap has a definite termination date of the end of 2023, and can be terminated earlier than that at the discretion of the secretary of state. Given this time limited nature of protection for legacy prepayment households, and the fact that the market detriment identified by the CMA will still exist until households have received smart meters (as the detriment it is largely rooted in physical infrastructure), BEIS would be letting the significant detriment found by the CMA resurface in the case that they had not taken action to ensure that as many legacy prepayment meters were upgraded before the price protection lapses.

Our Response to This Consultation

Our response below contains some new ideas for how the framework set out in this consultation, along with some broader incentives, could help accelerate the smart meter rollout for households that use legacy prepayment meters. NEA believes that this is an important piece of the puzzle for creating a fair market and to protect the interests of consumers and create opportunities to reduce bills, a priority area as outlined in the Energy White Paper[11].

Altering the Target Setting Mechanism to Accelerate the Replacement of Legacy Prepayment Meters

One way in which the rollout could be accelerated for households with legacy prepayment meters is to make a relatively small alteration to the mechanism set out in this consultation, so that suppliers are rewarded for prioritising replacing legacy prepayment meters over other meter types. This could be done through retaining the target setting process as has been laid out in this consultation, but weighting different install types differently as suppliers look to meet their targets, reflecting the additional value created by replacing a prepayment meter as opposed to replacing other meter types.

As an example, if a supplier had a target of 1m smart meter replacements in the first year of the new framework, with different weightings for different meter types they could meet this target in different ways. If the weighting for replacing prepayment meters was 1.25, for example, compared to 1 for other meter types, then suppliers could meet their target by replacing 1m non prepayment meters, or 800,000 legacy prepayment meters, or somewhere in between. If this were implemented, subsequent targets could then be recalculated using the remaining work to be done, as needs to be otherwise calculated given movements in customers between suppliers.

This approach has the advantage of BEIS being able to set a specific value on upgrading prepayment meters that directly relates to the system value that the upgrade represents, which should create a more efficient framework for achieving the outcomes that BEIS looks to achieve – creating a fair market and creating opportunities to replace bills. It would give suppliers the autonomy to choose the way in which they go about the rollout, while recognising the relative value of upgrading different meter types.

Broader Incentives to Accelerate the Replacement of Legacy Prepayment Meters

Alongside the specific policy change identified above, NEA has also identified some other incentives that could accelerate the replacement of legacy prepayment meters in order to eliminate the market detriment for these households before their price protection come to an end:

- **Do not allow suppliers to install of new legacy prepayment meters in all but excepotional circumstances**. Suppliers should not be able to take actions that reinforce the market detriment found by the CMA in their energy market investigation. Therefore, BEIS should look to ban suppliers from installing new legacy prepayment meters. If suppliers require households to use prepayment meters for debt reasons, these meters should be smart so that households are not then locked to their supplier, and can enjoy the many other benefits of smart meters, helping them to address their energy debt more efficiently.
- **Investigate opportunities for piggybacking delivery of wider service delivery.** There are many touchpoints with households that use legacy prepayment meters that are currently under-utilised in the context of the smart meter upgrade. While it is positive that BEIS are investigating whether Warm Home Discount Industry Initiative work should include smart meter advice as standard, BEIS should investigate what other opportunities could be taken in order to provide advice. This could include, for example, ECO, the fuel poor network extension scheme that Gas Distribution Networks administer or other energy efficiency schemes such as the Green Home Grant.
- **New opportunities for greater data-sharing to support hard to reach PPM customers.** Data sharing between DWP and energy suppliers has been a very successful technique for automatically identifying households that are eligible for the Warm Home Discount payment, and BEIS should

investigate whether sharing of other information between Government and suppliers could be fruitful in helping to support the hardest o reach prepayment customers.

- **Working with energy networks to promote smart PPM and enhance awareness.** In the coming years, energy networks will have a growing role to play in addressing consumer vulnerability within their RIIO 2 price controls. Gas Distribution Networks will have access to a £60m fund for projects to address consumer vulnerability and Distribution Network Operators will have an specific incentive for the same purpose. The projects funded by RIIO 2 will undoubtedly come across households with legacy prepayment meters that would benefit from a smart upgrade. There is an opportunity for BEIS to work with Ofgem to ensure that energy networks promote Smart meters to households with legacy prepayment meters when the opportunity arises.

- **A 'special measures' provision for PPM customers to who may not receive a smart meter at the end of the rollout.** There must be a backstop for households with legacy prepayment meters who do not receive a smart meter before their price protection ends. BEIS must consider what such a special measures provision would look like in order to mitigate the risk of reintroducing consumer detriment to the market.
- **Possible measures to enhance the delivery of smart meters to legacy prepayment customers by smaller suppliers.** Smaller suppliers have substantially increased their share of the energy market since the smart meter rollout began. BEIS should investigate new measures specifically for smaller suppliers to enhance their delivery of smart meters to lefacy prepayment customers.
- **Obligations to ensure that smart meters become standard when meters are replaced or installed, including;**
    - Including smart meters in building regulations
    - An obligation on landlords to install smart meters in privately rented properties before they are let
    - Obligations on insurance or building maintenance firms
    - Obligations on new build developers
    - Obligations on social housing providers

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[1] For more information visit: www.nea.org.uk.

[2] NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.

[3] This second phase of research is presented here: https://www.nea.org.uk/wp-content/uploads/2015/07/march-NEA-Smart-for-All-2-FullReport-FINAL.pdf

[4] See the full report here: https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/smart-meter-extra-help-scheme-full-report-final1.pdf

[5] See the final report here: http://www.nea.org.uk/wp-content/uploads/2018/08/SMART-UP-UK-FINAL-REPORT2.pdf

[6] For more information please see https://www.nea.org.uk/research/energywise/

[7] For the full report please see https://www.nao.org.uk/report/rolling-out-smart-meters/

[8] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945899/201216_BEIS_EWP_Command_Paper_Accessible.pdf

[9] https://assets.publishing.service.gov.uk/media/576c23e4ed915d622c000087/Energy-final-report-summary.pdf

[10] https://www.gov.uk/government/news/cma-recommends-protecting-prepayment-energy-customers-beyond-2020

[11] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/945899/201216_BEIS_EWP_Command_Paper_Accessible.pdf