



British Gas

Looking after your world

**DECC Consultation on information requirements for
monitoring and evaluation**

**British Gas response
26th July 2012**

Executive Summary

1. British Gas welcomes the intentions of the monitoring and evaluation obligations to be 'consistent, predictable and proportionate'. In general, we expect Government and suppliers to be tracking similar indicators of progress and success though, inevitably, the collation of reports and information for an external audience will demand additional effort and resources. Provided the requirements are established early (predictable), clearly justified (proportionate) and remain stable (consistent), we accept Government's need to track progress against volumes and benefits and we are broadly comfortable with the proposed obligations set out in the consultation.
2. The proposed framework, of an annual report with quarterly update on progress through a subset of the data, is a sensible approach. With the exception of roll-out volumes, most indicators will show little movement over a quarterly timescale so we think it is appropriate that the quarterly updates are relatively slim and capable of production through automation. We are concerned, however, at the suggestion that the annual reporting process – and potentially the timetable – could be different for Ofgem and for DECC. Suppliers will have one source of data and one team of resources working on these reports. We do not want to invite queries or create avoidable work by editing reports according to their audience. The Ofgem requirements should be encapsulated within the annual report or, at the very least, produced simultaneously, with the same reporting cycle.
3. We have discussed with Ofgem our reservations over the enforcement proposals associated with interim milestones. We agree that annual milestones should be set by suppliers and based on a percentage of their portfolio, but think that the focus should be on the viability of the long term plan rather than the achievement of the last milestone. This would also address our second concern, that the risk of enforcement action could stifle the setting of ambitious targets and encourage all suppliers to 'backload' their rollout plans. The annual review should be less about sanctions and more about the future. It should seek learning on what has proved difficult and what has gone well, to inform the approach to remainder of rollout

and to strengthen forward planning.

4. All interim milestones should have a tolerance attached and the consequences of under achievement should be proportionate. The Licence Conditions as drafted assume no flexibility, stipulating that they must be achieved.
5. We do not yet have a definition of what constitutes 'all reasonable steps' but think it is valid to include, within the milestone monitor, those metering points where these steps have irrefutably been taken. All suppliers will reach a point at which programme completion is unachievable if infinite resources are devoted to sites that are, in effect, impossible to access without a warrant of entry
6. We have raised concerns over some of the benefits tracking and will continue our dialogue on this topic. We are unclear what validity can be attached to aggregated average costs, which will be derived from a wide range of accounting assumptions and policies. Average figures can be misleading: for example, the absolute costs of our meter reading contracts will reduce, but will trail behind the reduction in dumb meters. Average costs for meter reading will increase therefore and it is important that points such as this are understood now rather than the subject of inquests later.
7. There is a far greater focus on benefits than on costs, which are limited to metering hardware. We are concerned that this may give a distorted view and leave suppliers open to accusations of failing to pass on benefits to consumers. There are costs in delivering the smart programme that cannot be ignored: stranding, recruitment and training, systems and processes, communications, transport, etc. We have no wish to increase the reporting burden but we need to be open about the gaps in the current scope.

Question 1. Do the licence conditions as drafted, deliver the set policy intentions set out above – for example, to create a consistent, predictable and proportionate framework for monitoring and reporting? Do any specific areas of the draft licence conditions need amendment or clarification to deliver this policy, and if so, how should they be amended?

- 1.1. We accept the policy intentions set out in the Consultation and agree that the draft licence conditions generally align with those objectives. In practice, it is the detail within the Information Requests themselves, and the frequency with which any 'ad hoc' requests are issued, which will determine whether the framework is consistent, predictable and proportionate.
 - 1.2. In condition XX 2 (c), there is reference to evaluating the scope and effectiveness of the licensee's consumer engagement activities. This is a very broad sweep with no boundary being suggested for what is covered under the term 'consumer engagement'. We would welcome clarification that the scope of activities covered by this condition is defined and narrowed in line with the objectives (consistent, predictable, proportionate).
 - 1.3. Experience to date in providing information on a voluntary basis has been valuable in identifying misunderstandings, interpretation queries, etc. It is our hope that all parties will have learned from this and that there will be fewer in future, but they have caused some returns to be later than planned. Whilst we should not plan to fail, it is important that the licence conditions allow some opportunity for accuracy and consistency to take priority over deadlines for submission.
 - 1.4. Since the purpose of the reporting is to track progress with the Programme and evaluate the outcome against the IA assumptions, it would be sensible to terminate the reporting obligation at a future date or when the Programme is deemed as having been completed. A sunset clause would achieve this.
 - 1.5. We wonder whether the condition XX (3) is a duplication of existing powers and therefore could cause confusion and may not be strictly necessary.
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Question 2. Is there a need for any consequential changes to existing licence conditions or codes to ensure that the proposed requirements on suppliers or network operators work as intended?

- 2.1. We are not aware of any consequential changes that are required.
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Question 3. What are your views on this proposed approach to the scope, frequency and timing of the content of Information Requests?

- 3.1. We agree with the proposal for annual plans supplemented by quarterly progress reports.
- 3.2. In practical terms, we think that there should be a clear justification for each item on which quarterly reporting is proposed as, other than roll-out volumes, we think most of the data required for monitoring and evaluation could be provided annually and may be more meaningful. Since the Consultation was published we have received further details on the content of the two reports and we are satisfied that there is nothing in the quarterly report that should be in the annual report. As an example, information on supplier efficiency savings is, quite rightly, included under annual monitoring. This needs an annual perspective simply because changes will be quite small in the early years, may not even exist until a 'tipping point' is reached, could be subject to seasonal distortions, and could be misinterpreted.
- 3.3. We welcome the recognition in the consultation that suppliers will need early notice of any changes to the reporting requirements and it is our hope that the number of ad hoc requests for information will be minimised.
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Question 4. Do you have any comments on the proposed framework for the provision of suppliers' plans and reporting information to Ofgem? Are there any alternative approaches that might better achieve the aims of the framework?

- 4.1. We do not agree that the annual plan required by Ofgem should be any different from that provided to DECC. It is in all parties' interests to avoid

any nugatory effort in filtering or editing information from a single source, that serves a similar purpose, simply because it is for a different audience. We would prefer DECC to ensure that Ofgem's requirements are covered within the Information Request relating to annual plans and for this to be obligated under a single set of licence conditions.

- 4.2. Preparing the annual report will be an overhead for suppliers, but to require the same resources to produce a similar submission from the same data, potentially on a different reporting cycle is a further burden and complication that is completely avoidable. We can envisage suppliers being asked to explain apparent discrepancies in information provided in the two reports, all of which could be avoided if it were (ideally) a single document, parts of which would be provided to Ofgem (and potentially published). Creating two reports would not be a problem for suppliers provided the timing is aligned to ensure they can be generated by the same people from the same data at the same point in time, as a single exercise.
- 4.3. We have noted in our response to Question 7 our reservations about the proposed use of milestones, though we recognise the need for confidence, for the duration of the Programme, that completion by 2019 is achievable. We agree that it is sensible for interim milestones to be set by those responsible for their achievement. Our main concern is that there are no unintended incentives for suppliers to underestimate their rate of progress and that exceeding a target is not regarded as a breach. On the first point, Ofgem's letter dated 14th June 2012¹ recognises that there are concerns that perverse incentives could be created for suppliers 'to delay their roll-out to later in the roll-out period, or discourage suppliers from providing ambitious plans', but the letter does not provide much guidance on how that risk will be addressed. As things stand, suppliers can avoid enforcement actions by back-loading their roll-out plans to the final years of rollout.
- 4.4. We think it is important, therefore, for Government and Ofgem to focus on the viability and credibility of the seven-year plan (refreshed and shortened in length each year) rather than the last milestone. It is essential that a

tolerance is allowed for all milestones for all suppliers, not at the request of individual suppliers. No supplier can predict exactly where they will have reached by specific dates. For example, we would expect Ofgem to be relaxed about a minor discrepancy, interested in the reasons for a difference that they feel merits commentary, and seeking reassurance and recovery plans for a more substantial variance..

- 4.5. The framework needs to reflect the need for differing levels of challenge and scrutiny, according to the circumstances (e.g. the remaining time available). It is conceivable that variances can be easily explained and recovered so a missed milestone should not be automatically regarded as licence breach requiring enforcement action. For example, a suspension of installations to address a safety or security concern should be welcomed as being in consumers' interests.
- 4.6. It is not clear whether there will be an opportunity for suppliers to reassess their milestones annually. We think this is a sensible and obvious provision to allow for under and over-estimates from the last year, to learn from experience, and to make operational capability the key criterion for assessment rather than year one planning skills (or caution).
- 4.7. The focus of attention should be forward-looking, concentrating on Programme completion, rather than necessarily enforcement action based on a retrospective view. However, past performance should inform the process: a track record of missed milestones should prompt more challenging scrutiny of future plans and, if they are unconvincing, Ofgem could, for example, require external independent assessment of deliverability.
- 4.8. There should be no sanctions for exceeding the target, provided DECC is satisfied that any acceleration has not compromised the customer experience or engagement effort by installers. There is a risk that over-ambitious targets could result in a focus on the quantity and not quality of installations, with consequent damage to the reputation of the whole industry, a lack of engagement and a risk to the delivery of the energy savings assumed in the IA. It is essential that the customer experience (and the reputation of the

Smart Metering Programme) is not put at risk through the hiring of lower-quality meter workers who may be available on a temporary / short term basis. The Programme must be wary of driving such an outcome. Monitoring responsibilities are divided: whilst Ofgem is focussing on the numbers, DECC will be tracking qualitative and customer engagement metrics. Both are relevant.

Question 5. Do you have any comments on the appropriate format of, and interval between, the interim milestones?

- 5.1. We agree that milestones should be kept at high level and suppliers left to plan the rollout in the most efficient way. The milestones are simply to provide confidence that timely programme completion is achievable, so they should be set at a national level, with no segmentation by geography or customer type. We think that a target based on a percentage of the customer base (adjusted annually) would be fair, though this is dependent on an agreed approach for gas-only installations being available. We cannot be reliant on the behaviour of a competitor in order to progress with roll out for our gas-only customers.
 - 5.2. We agree that the most appropriate frequency for milestones is annual.
 - 5.3. Consideration will need to be given to the effect of churn. A particularly compelling proposition could attract customers to a supplier for their smart installation, for example, reducing their percentage completed. However, this should have only a marginal effect if milestones can be revised annually as described in paragraph 4.6 above.
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Question 6. Do you have any comments on which elements of the above approach would be appropriate for smaller suppliers?

- 6.1. We think it is reasonable for all suppliers to provide annual milestones for use by Ofgem, DECC and DCC.

Question 7. Do the licence conditions as drafted effectively implement the proposed framework described in this section?

- 7.1. We have some concerns that the reference in condition YY 4 to Annual Milestones states that the licensee 'must comply with the Annual Milestones set out in its Roll-out Plan'. We do not think this is a sensible approach and that some tolerance is essential, as outlined in our response to Question 4. In addition:
- a. A Licence Condition requiring compliance forces a cautious approach in target setting and stifles ambition. A fully mobilised supplier with a stretching target in the first year risks a licence breach if it does not achieve its target, whereas an inactive supplier could set a very low target with impunity. This runs counter to the objectives of the Programme.
 - b. As drafted, any supplier exceeding its target would be in breach of its licence.
 - c. Some allowance (and definition) is required for 'all reasonable steps'. There will be a point at which supplier resources cannot be wasted on repeated attempts to secure engagement, gain access and replace the meter. These instances should be counted and considered against the achievement of the milestones.
- 7.2. In condition YY 6 we are concerned at the requirement for suppliers to 'publish' roll-out plans and progress reports. We expect these to include commercially sensitive information and would like to see this reflected in more appropriate drafting of the licence condition. Our preference is for Ofgem and DECC annual reporting requirements to be combined or, at the very least, synchronised. It should be made clear which sections of the reports could be made public.

Question 8. What are your views on the options for different geographical granularity of data collection for:

Monitoring the roll-out of smart meters;
Tracking the impact of smart meters on consumer's energy use for a sample of consumers;
Understanding the benefits and costs incurred?

- 8.1. We agree that for planning purposes it is appropriate to present information at no greater level of detail than DNO area. We will be planning for the short term at a more detailed level than this but do not expect this always to be an accurate prediction. We must retain flexibility to allocate work in the most efficient way possible and must avoid the overhead of explanations of why micro-level outcomes may have differed from plans, when macro-level are broadly as predicted.
- 8.2. The requirement to report on delivery of smart meters to different customer groups is more challenging. Location is straightforward, as is pre-payment, but the latter is not reliable as an indicator of vulnerability. We note the aspiration to link data on smart installations to other data sets to provide deeper analysis of customer experiences and impacts. We have no objection, in principle, to the provision of data at a level of granularity to support this. We think it is important that this is assessed objectively, however, and that we do not default to provision of data at MPAN / MPRN level simply 'because we can' and because this would provide full flexibility. There would be costs for suppliers and for DECC in building the capability to handle data of this volume and to transfer it securely. Postcodes could be deemed as personal data, with a consequential increase in the levels of security and control required.
- 8.3. For evaluation of impacts on energy use, we agree that site level reporting is justified for consumers designated (by DECC) as constituents of a representative group. We think that a clear framework or agreement will be required here to ensure full compliance with the law on data protection and data sharing. Ideally the data should be anonymised – for example, by attributing a unique identifier – to reduce the volume of personal data in circulation. The more detail that is provided, the greater the need for an

agreement (with governance) to ensure that

- suppliers are protected over the provision of customers' personal data and that
- the Programme is able to use data to gain insight, in an agreed and compliant way.

Question 9. What are your views on this approach to the publication of aggregated and supplier-specific information?

- 9.1. We agree that no supplier-specific information should be published without prior consent. We welcome the assurance that information provided would remain confidential and would not be released even under Freedom of Information Requests.
- 9.2. There are occasions when anonymised data can be appropriate but in many instances it is often easy to identify British Gas from these. Therefore the standard approach should always be for information in the public domain to be aggregated.
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Question 10. What are your views on the assumptions about the cost burden on suppliers of collecting and reporting on these data and information requirements? What could DECC do to minimise costs further?

- 10.1. Most of the information being requested is from data that suppliers require for normal business management purposes. Its collation – particularly for the annual report – will require time and effort but within the context of the overall Programme these costs are acceptable. Reporting at a granular level, if progressed, would introduce additional costs. A high level estimate suggests that this could run to several hundred thousands of pounds, in order to create the extract and also to establish the infrastructure to send the data to DECC securely. We also believe that costs for DECC for establishing the capability to handle this volume of data could run into millions.
- 10.2. Once established, ongoing costs would be minimal. The greatest contribution DECC could make to minimising costs is to make the requirements stable. It is important that the experience from the voluntary returns is used to make this possible.
- 10.3. As described in our comments against Question 4, we would like to see the requirements from Ofgem and DECC to be combined into a single report or,

at the very least, completely synchronised.

Question 11. What are your views on the information that large domestic suppliers should provide to Government on an annual basis?

- 11.1. We recognise the need for a clear roll-out plan, refreshed annually, and we are broadly comfortable with the content outlined in the consultation.
- 11.2. We note in section 3.2 that it is suggested that the DCC go-live date could be determined by suppliers' readiness to move to mass roll-out. We do not agree as this is in an artificial dependency that would delay mass roll-out to the speed of the slowest supplier. We do not expect the rate of installation to change dramatically once data and communications are provided through the DCC; it will simply continue to increase.
- 11.3. The tracking of costs and efficiency savings in a consistent manner across the industry is fraught with difficulty, a challenge that is recognised in the consultation. A number of different approaches are inevitable, therefore, and DECC will need to be cautious in the conclusions drawn from aggregating the data on costs and benefits.
- 11.4. We see some potential for double-counting of benefits for items (c) to (e) in section 5.1, as it may be difficult to exclude phone calls from the cost of exception handling. We note that the numbers to be reported are at quite high level, which we welcome, but the narrative will require much more detailed background analysis to identify trends which may otherwise be inexplicable or invisible.
- 11.5. It is also important to manage expectations on benefits, many of which will be realised towards the end of the programme. It is important that this is understood by politicians to avoid hasty conclusions that the Programme is simply adding to costs. Meter reading is a good example of this. Costs will not decrease for many years. The number will decrease but the average cost can be expected to go up as the density of dumb meters goes down. Without a change to the meter inspection regime the costs will remain broadly

the same as they are today and the anticipated benefit will evaporate.

- 11.6. Section 5 of the Annual Reporting template focuses on averages but makes no distinction between smart and dumb meters. For some of the measures that would be quite difficult but, for meter reading, it would be relatively straightforward to look at contract costs for physical reads (divided by the number received) and show DCC/smart costs separately.
- 11.7. We agree that it is appropriate to compare costs and operational details for legacy and smart metering. Overall the focus appears to be stronger on benefits than costs (section 5.2 of the template covers suppliers' costs but covers only metering hardware; there are many other areas of cost in implementing smart metering, such as meter stranding costs, meter inspection costs, systems and process developments, reporting, etc.).
- 11.8. It is an unavoidable reality that the mobilisation costs will be enormous and early, whilst the many of the benefits will realised several years later. The smart meter deployment could transform the relationship with customers and will drive sweeping changes in processes and interactions. Changes to systems, websites, etc. will inevitably follow and will enrich the customer experience. DECC will need to be clear where the line is drawn between investments essential to smart delivery and investments made to deliver it better or in a more engaging way for customers.

Question 12. What are your views on the information that suppliers should provide to the Government on a regular reporting cycle?

- 12.1. The difficulty of tracking supplier efficiency savings is noted above and in the consultation. We are not convinced that this data will change significantly on a quarterly basis and had expected this to be covered in the annual submission. The current templates do this but the consultation (paragraph 12.5) suggests an intent to track this quarterly. We do not think this is appropriate or that it will show meaningful movements.

- 12.2. It is reasonable to require suppliers to describe their approach to and success with customer engagement in the annual plans. Determining what succeeds and what drives consumption reduction will be harder, since there is no controlled environment available. Many voices, interventions, domestic events and consumer actions will be concurrent, making it extremely difficult to isolate the impact of the smart meter. From our own experience, tracking consumption reduction takes at least a year and ideally two winters, so we are unsure whether a quarterly monitor is necessary for this.
- 12.3. It is important that monitoring of customer engagement does not duplicate that proposed for the Installation Code of Practice which, it is proposed, will include external research into customer experience. It would be relatively straightforward to include a few additional 'engagement' questions within that process, avoiding the costs and consent obligations required for separate surveys.
- 12.4. Whilst we expect suppliers to be the source of most data, we think that other sources will also be required. We agree that there is a case for direct qualitative and quantitative research by DECC. We suggest that measures of effectiveness of the Central Body for engagement will also be required, and consideration should also be given to monitoring the activities and effect on engagement and consumption reduction of third party energy services providers.