ofgem E-Serve

Meeting note

Benefits realisation – Meeting Note

Note of discussion and actions from benefits relaisation workshop No. 1	From	Graeme Pauley (Benefits Lead)
	Date and time of Meeting	17th February, 2011 09:00 to 13:00
	Location	Ofgem, 9 Millbank, London

1. Present

1.1. Ofgem – Maxine Frerk (part), Ted Hopcroft, Graeme Pauley

1.2. DECC – Graham Brown

1.3. Participants nominated by ICG members:

BG (Centrica)	Steve Briggs
Consumer Focus	Zoe McLeod
EDF	Ashley Pocock
ENA	Steve Burns
EON	Steve James
ERA	Jason Brogden
Npower	Jason Powells
Scottish power	Ross Mackie
SSE	Martyn Edwards

2. Apologies

2.1. DECC – Michael Harrison

2.2. Participants nominated by ICG members:

Darren Braham	First Utility
Richard Moore	Ofcom

3. Introductions

3.1. Round table introduction of each workshop participant.

3.2. Graeme Pauley (Programme) to facilitate workshop.

4. Purpose of workshops

4.1. The programme set out the rationale for holding the workshops:

"How might we work together to establish a practical, cost-effective way to monitor and report on benefits and the factors which contribute to their realisation, and - in doing so - support policy evaluation and research?"

4.2. Focus for the smart metering programme is on what to measure and who should be involved in the measurement activity. The programme is, therefore, reaching out to industry and consumer groups to open up a dialogue and identify areas of common

interest. Specifically, two workshops have been arranged prior to publication of the Government Decision Document.

5. Illustration

5.1. Benefits realisation can appear abstract and 'jargonesque'. The first part of the workshop introduced a number of benefits realisation concepts through discussion of the financial benefits set out in the Impact Assessment and an illustration of a critical enabler (ensuring customer support for the Smart Metering programme). Please refer to paragraph 6.1 for a definition of benefits and enablers.

5.2. The group agreed there was a need to quantify non-financial benefits, particularly in relation to consumers. It recognised that the smart metering measurement framework should include Key Performance Indicators as well as more detailed information to support decision making. Performance against a specific, detailed metric should, however, be interpreted with reference to progress in delivering overall programme outcomes. The group recommended focusing on direct benefits rather than second order effects, such as the financial value of possible improvements in health and well-being. It also noted that, by definition, the roll out of smart metering was creating a measurement system which included every household in the Great Britain.

5.3. The group discussed the desirability of identifying and promulgating 'best practice'. Concerns were raised that a 'one size fits all' approach to rollout could be counter productive and reduce efficiency; for example, timed appointments are generally more expensive than allowing field staff to move to the next job as soon as they become available. It was agreed that 'good practice' was a better term and that measures (such as customer perception) should not be interpreted in isolation. It was also suggested that over zealous promulgation of good practice (and related information) could reduce the incentive for industry to innovate. Consumer perceptions of good practice are a potential source of competitive advantage. Conversely, there is a risk for the the whole industry from poor consumer experience with a supplier. It was pointed out that there are potential costs for consumers which need to be balanced against efficiency from a supplier perspective; for example, all consumers are inconvenienced if they need to be present before or during smart meter installation; furthermore, low income consumers are unlikely to be paid during the period in which they are absent from their workplace.The group discussed the use of benefits measures for programme management and energy policy evaluation. The requirements for smart metering need to take into account experimentation during Foundation and later programme delivery stages. It was suggested there might be parallels with the executive information systems used in industry, where senior executives can drill down to a certain level of detail, beyond which it is expected that individual managers are empowered to deliver results. There was broad consensus that the national programme should refrain from 'micro-management'. It was also reported that industry used 'herringbone' [Ishikawa] diagrams to assess delivery against benefits targets.

The group expressed concern that it was basing its analysis on a version of the Impact assessment which was soon to be reissued. It also stressed that, at this stage of the programme, there were many factors which could affect the forecast financial returns. The programme explained that the Impact Assessment was in its approval cycle and that an update was not possible. It reassured the group that the benefits workshops were of significant benefit and that none of the input would be nugatory.

6. Benefits and enablers

6.1. The second part of the workshop explored smart metering benefits and enablers. Benefits are the planned desirable outcomes from the change delivered by the smart

metering programme. Critical enablers are things which we have to get right to ensure the benefits will be realised.

Benefits

6.2. The group revisited the financial benefits set out in the Impact Assessment. They were asked to consider whether these covered all the planned desirable outcomes from smart metering. It was noted that energy saving was the largest financial benefit category and – as such – the achievement of energy savings is essential for the business case. The group identified an issue with measuring energy consumption behaviour change: first, the legacy meter group would diminish over time making it more difficult to assess the effect of smart meter installation; and, secondly, following installation long-term consumption behaviour might be affected by numerous powerful factors, including changes in circumstances for consumers or future energy policy. It was suggested that the market for energy saving products, services and tariffs would help to ensure that consumers would use smart metering infrastructure to achieve savings. Ensuring the health of that market is therefore a potential enabler.

6.3. The scale of the forecast meter-reading saving was challenged. It was suggested that actual savings might be less than half the forecast value due to the obligation to carry out safety inspections. The programme confirmed that this had been picked up in the consultation response. It was also stated that financial benefits for DNOs would be relatively small, however the service impact would be significant. This supports the use of non-financial metrics.

6.4. The group questioned how 'intangibles' (such as the security of the energy supply or openness of the smart grid) could be measured. Concerns were shared that there might not be sufficiently strong linkage between investment in enabling infrastructure and specific strategic benefits. A metric for 'the quality of enablement' was suggested. It was also pointed out that benefits needed to be allocated at a 'meta programme' level to ensure double counting is avoided.

6.5. The group considered the consumer perspective. It was suggested there is a need to define a successful domestic smart metering installation; for example, the receipt of accurate bills for a minimum period. It was confirmed that there is a benefit to consumers from reducing debt; however, pre-payment benefits might be reduced by additional cost keypads. It was suggested that for low-income or vulnerable groups there could be a potential disbenefit if the In Home Display were to drive energy consumption behaviour which affected health and well-being. That notwithstanding, the new load limiting (trickle flow) facility could help support essential energy supply for vulnerable consumers. It was suggested that further work is required to present a coherent view of benefits for consumers, including equitable distribution.

6.6. The group cautioned that expected benefits may not be achieved immediately; for example, 'consumer service overheads' could increase during the rollout period due to service requests immediately before and after smart meter installation.

Enablers

6.7. Measuring progress in realising output benefits is necessary, but not sufficient to ensure delivery of the smart metering business case. It is also essential to identify the benefit enablers and develop appropriate metrics for them.

6.8. The group was asked to brain storm the critical enablers for smart metering. A wide range of potential enablers were identified, including: the information provided through In Home Displays; customer engagement, awareness and support; community involvement; the regulatory framework; consumer advice; access to data; early mover

success; simplification of industry processes; and, the quality of installation activity. The full list is attached to this note.

6.9. The group confirmed that a focus on benefits enablers is central to achieving programme and policy aims. It also identified that we need to think in terms of a customer journey rather than an isolated installation event.

7. Metrics

7.1. The third part of the workhop reviewed current delivery and measurement activity.

7.2. Maxine Frerk (Programme) set the scene by explaining that effective measurement will be important during the Foundation Stage of the Smart Metering programme. The information needs of a number of streams of activity - including benefits realisation, consumer engagement and rollout progress - will need to be co-ordinated. Furthermore, there is an important learning opportunity which will require effective evidence gathering.

7.3. The group was asked what things it is currently measuring or planning to measure. In summary:

- There are industry standard metrics for customer engagement. A number of suppliers are using Net Promoter Score (NPS) to compare legacy and smart meter consumer groups.

- Typical Business As Usual (BAU) metrics for the industry relate to cost, process, efficiency, ease of access, market retention, etc. A balanced scorecard for smart metering is likely to include cost, process metrics (e.g. time to install meter), energy consumption, customer complaints and market information (e.g. retention).

- Smart metering issues can be tracked through third parties, such as Consumer Direct. Further work is required, however, to establish smart metering specific systems.

- It is also possible to compare information from parent/sister companies; for example, to assess different market propositions.

- Research is being conducted in a number of areas, including consumer awareness, In Home Displays, 'good practice', and how to facilitate smart metering by looking at defects and their cost to ENOs. Some of this is taking place under Carbon Emissions Reduction Target (CERT) and the Low Carbon Network Fund (LCNF).

- There are plans to review consumer experience internationally, examine Economy 7 usage and Time Of Use (TOU) tariffs, and employ mystery shoppers to review customer experience of smart meter installations.

7.4. The group suggested establishing a RAID (risks and issues) log for benefits realisation. It was explained that this already formed part of the benefits realisation approach which fed into standard programme reporting mechanisms, including risk and issues logs.

7.5. The group also suggested that existing market data sources should should be used wherever possible, and that some information might be best source from a central database.

7.6. BG reported there were some interesting learnings emerging from its early adopters, particularly in relation to stuck processes, billing and consumer behaviour; for

example, some customers insisted on ringing with meter readings despite installation of a smart meter.

8. Current activity

8.1. The programme provided a brief update on the proposal in the July 2010 Prospectus to establish a methodology and approach to benefits realisation. It is applying 'best practice' from OGC guidance and other contemporary sources.

9. Next steps

9.1. Possible areas of mutual interest for further discussion were flagged during each session. The group reviewed the list, which was as follows:

- Benefits yet to be quantified;
- Stimulating a competitive market for energy consumption products and services (from a consumer perspective);
- Baselining energy consumption change, to include legacy to smart meter transition and the avoidance of 'cross contamination' over time; and
- Consumer benefits, to include substantive unquantified benefits and low income and vulnerable groups.

9.2. This list will inform the agenda for the second workshop.

10. Actions

Confirm topics for discussion at workshop 2	**Programme**	**25/02/11**
Confirm revised IA briefing arrangements	**DECC**	**When published**

11. Date of next meeting

3rd March, 2011 – 10:00 to 14:00 hrs, Ofgem, 9 Millbank, London, SW1P 3GE.

Attachment A: Critical Enablers brainstorm outputs

Team 1 (SB, JB, RL, ZM, JP)

ofgem Promoting choice and value for all gas and electricity customers

Critical enablers [Team 1]

- Energy savings benefit
  - IHD provides information
  - Engaging customer
    - Promote products and services
    - Don't use for 'pressurised' sales
    - Life beyond installation
    - Rewards programme, e.g. competition with neighbours
  - Info on bills appropriate and accurate
  - Community involvement
    - Advocacy
    - Education
    - Media
  - Support and advice on energy efficiency
  - Access to data (free)
    - Third parties
    - Suppliers
    - Consumers
  - Targeted energy efficiency advice
  - Hygiene factors
    - Customer confidence
    - Cost

Customer journey
• Visit
• Awareness campaign
• IHD
• Post visit
– Immediate
– 6 to 9 months

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Critical enablers [Team 1 continued]

- Energy savings benefit (continued)
  - Appropriate regulatory / policy framework
    - Code of practice installation
    - Communications / engagement framework
  - Working comms infrastructure [WAN and DCC]
  - Clear definition of completed installation
    - E.g. first bill accurate
  - Fit for purpose validation of readiness
- Fewer visits [benefit?]
  - Avoided meter readings
  - Fix meter inspection regime
- Improved customer service benefit
  - Customer has free access to billing information
    - In a format which allows comparison of deals
    - Information (contract length) engagement
  - Centralised registration!!
    - Improved industry processes
  - Comms tested
  - PPM customers
    - Easier switching process
    - Accurate bills

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Team 2 (GB, ME, SJ, RM, AP)

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Critical enablers [Team 2]

- Energy savings benefit
  - Understand why Sm needed for energy savings
  - Are elec and gas different?
  - Consumer support/interest/understanding
    - Addressing privacy concerns [avoid unwillingness to change]
    - Understanding benefits of SM
    - Education and awareness on energy efficieny
    - Acceptance by consumers is key
  - Netwrok awareness campaign
  - Supplier/energy services co products/services/tariff
  - Access to granular data
  - Lack of access reduces [others?] ability to provide services
  - Working infrastructure
  - Early mover success
  - IHD or equivalent

- Access rates impact
- Positive view of SM

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Critical enablers [Team 2 continued]

- Avoided meter reading benefit
  - Safety visit avoided
- Customer switching benefit
  - Robust processes
  - Alignment of elec and gas
  - Simplification of industry processes
- Debt handling benefit
  - Remote PPM ⇔ credit
  - Accurate consumption and billing
    - Avoids shock from estimates
  - Range of payment methods
  - Range of [recovery?] options
- Inbound enquiries benefit
  - Accurate bills
  - Change over time
    - Early experiences of new SM
  - Engagement process
  - Quality of pre / installation activity
  - Training of staff

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