

Benefits realisation – Meeting Note

Note of discussion and actions from benefits realisation workshop No. 2	From	Graeme Pauley (Benefits Lead)
	Date and time of Meeting	3rd March, 2011 10:00 to 14:00
	Location	Ofgem, 9 Millbank, London

1. Present

- 1.1. Ofgem – Maxine Frerk (part), Ted Hopcroft (part), Graeme Pauley
- 1.2. DECC – Graham Brown, Michael Harrison
- 1.3. Participants nominated by ICG members:

BG (Centrica)	Steve Briggs
Consumer Focus	Zoe McLeod
EDF	Ashley Pocock
ENA	Steve Burns
EON	Alex Travell
ERA	Jason Brogden
Npower	Lawrence Goldberg
Scottish power	Ross Mackie
SSE	Mark Knight

2. Apologies

- 2.1. 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 (Ofgem) to facilitate workshop.

4. Workshop 1

- 4.1. The group provided points of clarification on the draft note for Workshop 1, which had been circulated prior to the meeting. The note has since been revised and reissued as version 1.0.

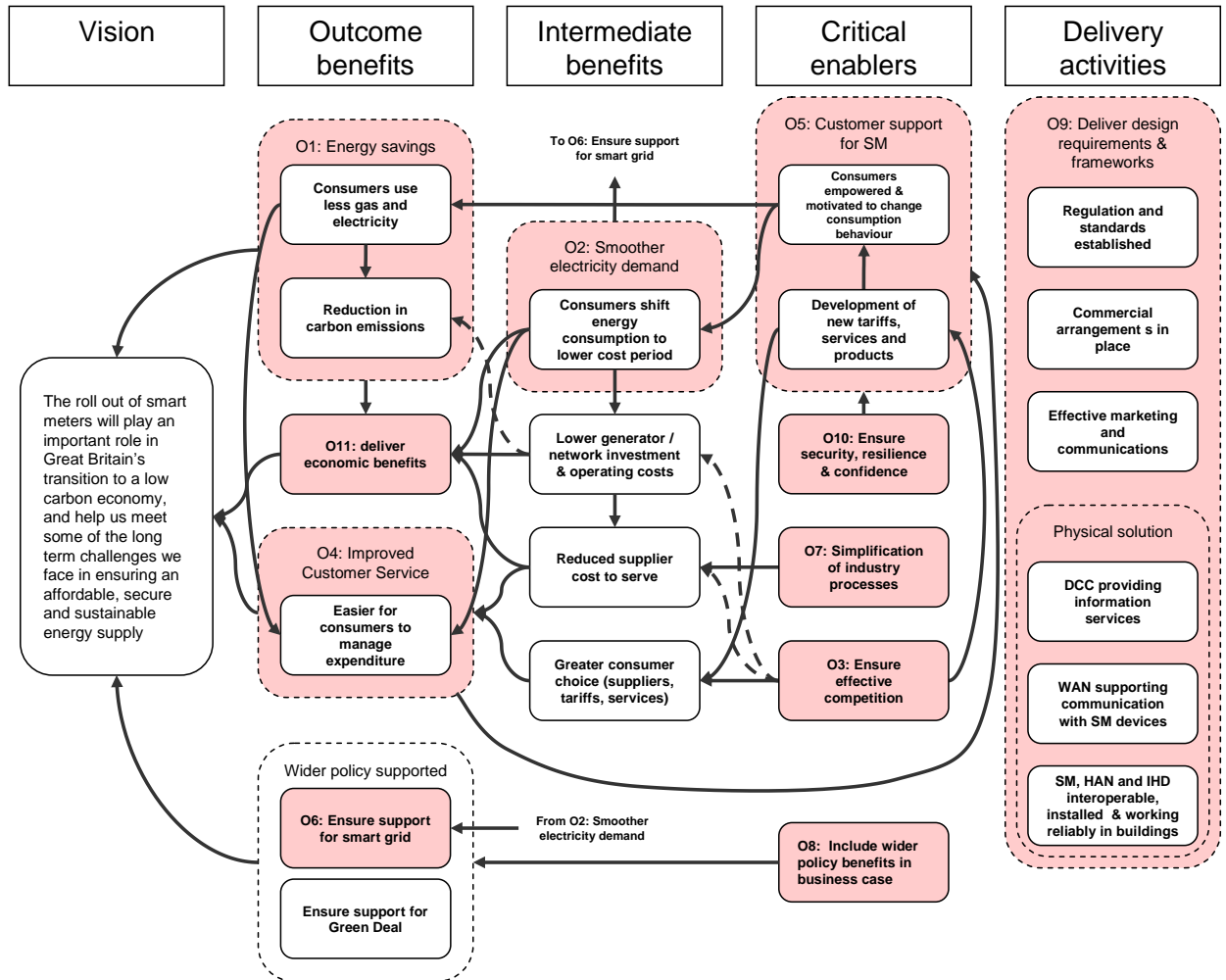
5. Draft benefits map

- 5.1. The first part of the workshop explored the relationship between benefits realisation, smart metering programme objectives and the benefits set out in the Impact Assessments.

Background

5.2. The Impact Assessments quantify smart metering benefits and propose that the 11 programme objectives will form the basis of the benefits management work. The programme has developed the draft benefits map (below) to illustrate the relationship between smart metering objectives, benefits, and enabling activities.

Draft Smart Metering Programme Benefits Map



5.3. Reading from right to left, the map shows how smart metering delivery activities (such as establishing regulations and standards) support critical enablers (such as ensuring customer support) which lead to intermediate benefits (such as reduced supplier cost to serve) and outcome benefits (such as a reduction in carbon emissions), in support of a programme vision. The 11 programme objectives are placed on the benefits map. They are numbered and highlighted in red. The full text for each objective is supplied in Attachment A.

5.4. The benefits map is important because it provides an overarching structure and logic for benefits realisation activities and related communications.

Exercise

5.5. The group took part in a exercise to review the draft benefits map above. The results are presented as two annotated benefits maps in Attachment B. A summary of the group's main observations is presented below:

- **Column headings:** the group recommended renaming the column headings (within this note, however, the original headings will be retained to aid comprehension). There was agreement that Outcome Benefits should corresponded with messages about the programme at a senior (i.e. Ministerial) level, and that the Intermediate Benefits should cover the wider set of quantified and less tangible benefits identified in the Impact Assessments.
- **Vision:** There was a general view that the programme Vision required further elaboration; for example, the need to ensure security of supply should be emphasised. We should consider including a statement about achieving a positive Net Present Value.
- **Benefits:** the group were unanimous that 'carbon reduction' and 'cost savings for consumers' should be classified as Outcome Benefits. There were different opinions, however, as to where the other draft Output and Intermediate Benefits (and related objectives) should be located; for example, some objectives (such as 'delivering economic benefits') might sit more naturally within the programme Vision.

We should consider 'enabling the smart grid' as an Outcome Benefit. 'Avoided Meter Reading' is the second largest financial benefit forecast in the Impact Assessment (NPV £2.8bn) and should, therefore, have visibility on the benefits map, e.g. as an intermediate benefit which supports 'cost savings for consumers'.

- **Critical Enablers:** the group pointed out that smart metering infrastructure is in itself an enabler, and suggested that the main issue for benefits realisation is to articulate programme assumptions about how it will be used to realise benefits. They confirmed that 'customer support' is likely to be the most important enabler, and that all consumers should benefit from smart metering, including low income and vulnerable groups. The group recommended further work to clarify consumer benefits and related critical enablers (refer to section 6 below for more input on the consumer experience).
- **Delivery actions:** industry considers the 'simplification of processes' as its delivery actions rather than a Critical Enabler.
- **Programme objectives:** the group recommended recasting the 'smoother electricity demand' objective in terms of balancing demand and generation capability. They also suggested the 'effective competition' objective could be more specific (e.g. encouraging innovation and competition in smart metering products, services and tariffs). Some of the objectives (as currently worded) are difficult to place under a single heading.
- **Timing:** the group recommended that the benefits map include information about the timing of benefits realisation; for example, using colour coding to indicate early or later delivery in relation to the rollout schedule. Ranking the list of benefits could help to focus action, particularly in relation to ensuring Critical Enablers are delivered.

6. Consumer perspective

- 6.1. The second part of the workshop explored 'intangible' benefits, which are not quantified in the Impact Assessment, from the perspective of the consumer experience.

Intangible benefits

- 6.2. The group was asked to identify intangible benefits and to qualify them by considering whether all consumers would benefit equally.

- 6.3. Smart metering provides an opportunity to deliver services more efficiently and effectively. The group explained there is a need to ensure low income and vulnerable groups are not left behind. They also stressed that smart metering represents an opportunity to deliver additional benefits to low income consumers, e.g. through enhanced delivery of existing schemes. Mechanisms (such as social assistance programmes) exist to support these groups. There is a need, therefore, to explore how we can make these more effective.
- 6.4. The group forecast that accurate, timely bills and improved control over consumption and expenditure will help to reduce financial concerns for many consumers. Moreover, domestic energy bills may no longer be the responsibility of the bill payer; under smart metering the whole family will be encouraged to understand the implications of energy consumption choices. Consumers should further benefit from an increase in the range and choice of tariffs. The group noted, however, that at least one company is reported as charging micro-businesses for access to their own energy consumption information through an on-line portal, and that this would be a potential constraint to derivable energy consumption change if it were to become prevalent in the domestic energy management market. Easy access to well-designed information is a critical enabler.
- 6.5. The group expected that improved call handling will support better customer service. Call centres will have access to significantly enhanced field information which will help them understand what the caller is experiencing. Pre-payment customers should also receive better customer service at lower cost. All consumers should find it easier to change payment methods or suppliers. The group warned, however, against introducing additional costs-to-service for pre-payment meters or leaving pre-payment meter installation to the end of rollout.
- 6.6. The group noted that financial benefits set out in the impact assessment (such as 'avoided meter readings') result in consumer benefits which go beyond the passing on of industry cost savings (e.g. a reduction in inconvenience caused by meter reading). Identifying the links between quantified financial savings and less tangible consumer benefits will help with development of the smart metering consumer proposition.
- 6.7. The group identified significant potential for market innovation building on the smart metering infrastructure; for example, new products which enable social services and other care providers to monitor vulnerable individuals (e.g. to ensure they were heating their homes adequately), or new products which link burglar alarms to the smart metering Wide Area Network. There would also be a wider choice of energy products, services and tariffs.
- 6.8. The group discussed the implications of increased choice. There is an implicit assumption that greater choice is desirable, but this is not always the case from a consumer perspective. They suggested it is important that choice be provided in the areas where consumers would like greater choice and can also benefit from their decisions. The needs of consumers with differing levels of numeracy, literacy and engagement need to be taken in to consideration before offering greater choice. Specifically, it is important that consumers are able to access their energy consumption information for free, and in a format which allows like-for-like comparisons and supports decisions on the 'best' energy deal for them.
- 6.9. Further intangible benefits included supporting the sharing of knowledge within communities, and that society would be provided with visible technical leadership which would help foster an engineering culture and support both UK exports and international reputation.

Disbenefits

- 6.10. The group was also asked to identify potential disbenefits. They explained that apparently minor changes, such as losing a socket to power the IHD, may have a significant effect on some households.
- 6.11. The group identified the chief disbenefit as the inconvenience for domestic consumers of having to stay at home when smart meters are being installed. This could result in a financial loss for individuals if they are unable to travel to their place of work, and is likely to be of particular concern for low income families. Operational efficiency for suppliers needs to be balanced against the perceived costs for consumers. We should consider how to avoid separate installation for gas and electricity meters and missed appointments.
- 6.12. The programme suggested that, during the rollout period, settlement drift might result in greater uncertainty throughout the supply chain and, as a result, lead to higher prices. The group did not consider this to be a likely disbenefit. They did, however, report that field trials for the rollout suggest that a significant proportion of homes may need to update wiring or appliances to improve safety or support smart metering technology. There is a financial cost in making these upgrades and inconvenience for homeowners where the electricity (or gas) supply needs to be disconnected whilst the work is taking place. The group pointed out that this was not a smart metering specific issue, because existing meter reading and safety checks produced the same outcome. The potential disbenefit is, rather, an increase in the rate of change during the rollout period plus the elevated overhead for suppliers in dealing with it. The group estimated that existing rates would roughly double during rollout and concluded that current industry systems would be able to handle it effectively. There remains however a potential consumer engagement risk as consumers are likely to perceive all issues arising from smart meter installation as being wholly related to the programme.

7. Monitoring and reporting issues

- 7.1. There was insufficient time for this proposed agenda item.

8. Next steps

- 8.1. This was the last of two planned workshops during the current Phase. The programme will determine the need for groups to support its activities at the start of the next phase. These will be notified to appropriate stakeholders and published on the DECC website
- 8.2. The programme would like to take this opportunity to thank individuals and their organisations for the high quality and open nature of the discussions which took place. This is a very encouraging start to the dialogue which bodes well for the next phase.

9. Actions

Post workshop notes and accompanying slides on the stakeholder section of the smart metering pages on the Ofgem website	Ofgem	31/03/11
Produce benefits maps from a consumer perspective (using a similar approach to the programme)	Consumer Focus	TBC

Attachment A: Smart metering programme objectives

O1: Energy Savings: to promote cost effective energy savings, enabling all consumers to better manage their energy consumption and expenditure and deliver carbon savings.

O2: Smoother electricity demand: to promote cost effective smoother electricity demand, so as to facilitate anticipated changes in the electricity supply sector and reduces the costs of delivering (generating and distributing) energy.

O3: Effective competition: to promote effective competition in all relevant markets.

O4: Improved customer service: to facilitate improved customer service by energy suppliers, including easier switching and price transparency, accurate bills and new tariff and payment options.

O5: Customer support for SM: to deliver customer support for the programme, based on recognition of the consumer benefits and fairness, and confidence in the arrangements for data protection, access and use.

O6: Ensure support for smart grid: to ensure that timely information and suitable functionality is provided through smart meters and the associated communications architecture where cost effective, to support development of smart grids.

O7: Simplification of industry processes: to enable simplification of industry processes and resulting cost savings and service improvements.

O8: Include wider policy benefits in business case: to ensure that the dependencies on smart metering of wider areas of potential public policy benefits are identified and included within the strategic business case for the programme, where they are justified in cost benefits terms and do not compromise or put at risk other programme objectives.

O9: Deliver design requirements & frameworks: to deliver the necessary design requirements, commercial and regulatory framework and supporting activities so as to achieve the timely development and cost effective implementation of smart metering, meeting programme milestones and Government's 2020 deadline.

O10: Ensure security, resilience and confidence: to ensure the communications infrastructure, metering and data management arrangements meet national requirements for security and resilience and command the confidence of stakeholders.

O11: Deliver economic benefits: to manage the costs and benefits attributable to the programme, in order to deliver the economic benefits set out in the Strategic Business Case.