Maximising the smart meter rollout for prepayment customers

Executive Summary

A report by National Energy Action and Energy Action Scotland

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National Energy Action (NEA) and Energy Action Scotland (EAS) are leading fuel poverty charities. Both organisations have a long-standing interest in improving poor outcomes for prepayment customers who need to pay for their energy before they use it – usually by adding money to a ‘key’ which is then inserted into the meter. As this report demonstrates, and other studies have found, this payment method is often very challenging for the poorest consumers. The national and local lockdowns that resulted from the ongoing Covid-19 pandemic have badly exacerbated these challenges, with no ability to top up their meters without leaving the house, despite the Government advising us all to stay at home and stay safe.

Although due to be completed in 2020, the smart meter rollout is far from complete. According to statistics from the Department for Business, Energy and Industrial Strategy (BEIS), only three million smart meters are in prepayment mode, meaning that there are more than 2 million households still using legacy prepayment meters. This is despite several organisations, including Ofgem and NEA, showing the benefits that smart meters have for prepayment users.

This research study has been completed to evaluate the potential benefits of smart prepayment, investigate remaining barriers that are preventing further uptake and consider a range of potential interventions to maximise the rollout of smart prepayment in the remaining years of the rollout. It considers benefits, barriers, and interventions that could urgently help boost the deployment and uptake of smart meters for prepayment customers. The analysis is based on the feedback from a call for evidence which 132 organisations across the United Kingdom responded to, as well as expert interviews with 12 key stakeholders. The research also captures households’ own views of the technology, particularly in the context of the current pandemic but we stress the importance of responding to these issues in the aftermath of Covid-19 and the severe restrictions the virus has prompted in all our daily lives.

Our analysis of the potential benefits of smart meters for prepayment households has shown that there are 15 significant benefits for households, energy suppliers, landlords and GB plc. Lifetime net present benefits are shown in brackets.
<table>
<thead>
<tr>
<th>HOUSEHOLD BENEFITS</th>
<th>SUPPLIER BENEFITS</th>
<th>MACRO BENEFITS</th>
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</thead>
<tbody>
<tr>
<td>The ability to change payment type</td>
<td>Reduced costs to serve customers</td>
<td>Reduced energy waste</td>
</tr>
<tr>
<td>(£98m)</td>
<td>(£1,100m)</td>
<td>(0.2THw/year gas and 0.41TWh/year electricity)</td>
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<tr>
<td>New, innovative tariffs (e.g. ToU)</td>
<td>Enhanced debt repayment processes</td>
<td>Reduced energy infrastructure costs</td>
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<tr>
<td>(£245m)</td>
<td>(included in reduced cost to serve)</td>
<td>(£168m)</td>
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<tr>
<td>Enhanced information to aid budgeting</td>
<td>Better management of costs for when households cannot physically top up</td>
<td>Enhanced rollout of energy-related technology</td>
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<tr>
<td>(£500m)</td>
<td>(included in reduced cost to serve)</td>
<td></td>
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<tr>
<td>Better vending options</td>
<td>Enhanced consumer engagement</td>
<td>Greater renewable generation utilisation</td>
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<tr>
<td>(£1,310m)</td>
<td>(£170m)</td>
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<tr>
<td>The choice of energy tariff</td>
<td>Increased financial resilience</td>
<td>Reduced social stigma for prepayment users</td>
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<tr>
<td>(£3,700m)</td>
<td>(£150m)</td>
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In all, we found that there were 16 significant benefits to rolling out smart meters to prepayment households, with a lifetime benefit of over £5bn to households and more than £1.4bn to energy suppliers, facilitating a reduction in 0.2THh/year in gas use, and 0.41TWh/year in electricity use, amounting to 130,000 tonnes of CO2 saved per year, while contributing 10,000 jobs to the economy. It was found that while there are benefits for landlords, particularly regarding reduced disputes, more work needs to be done in quantifying them.

Barriers were also investigated with stakeholders across the industry, with nine top barriers identified that need to be solved to maximise the benefits:
We investigated an array of possible interventions, asking stakeholders whether they would be likely to be successful in removing the identified barriers. Using this insight, and the information found on the benefits and barriers, we make six recommendations:

**Recommendations to improve policy and regulation**

BEIS, in the new smart metering framework due to begin in early in 2022, should include a mechanism that rewards the replacement of legacy prepayment meters.

Ofgem should strengthen, monitor and better enforce the New and Replacement Obligation to ensure that smart meters are used whenever a legacy prepayment meter is replaced or moved.

Ofgem should direct suppliers to offer an accessible in-home display (AIHD) to households on the priority services register, when they request a smart meter. Smart Energy GB should run further and more prominent campaigns aimed at boosting the awareness of the accessible in-home display.

**Recommendations to provide incentives to customers**

BEIS should implement a rule that suppliers must offer cashback to households, sharing the supplier benefit with a household in a 50/50 split.

**Recommendations to improve customer awareness and accessibility of smart meters**

There should be a concerted effort to improve advice surrounding smart prepayment meters by building on existing advice packages, using data better and leveraging household contacts:

- Industry should come together to create a targeted advice package for prepayment users
- Energy suppliers should make the most of their own data to target prepayment households with information on the benefits of smart metering
- Energy suppliers, BEIS and consumer groups, through the Consumer Reference Group, work together to better target advice to households in apartment blocks
- BEIS should investigate how at a minimum, smart metering advice can be integrated into upcoming energy schemes such as ECO4 and the Home Upgrade Grant Scheme. This should be piloted in a limited real-world trial to test the ability of the supplier to deliver advice in their delivery of ECO4

Energy suppliers should commit to activities that can help build better trust with their legacy prepayment customers, including specific sessions to discuss the benefits of smart prepayment.
The changes proposed in this report may take time to progress, and while we are confident that the changes that are taken forward will ultimately have a significant impact, those households that remain using legacy prepayment meters must be protected against the detriment they naturally face in the market. Currently, the default tariff price cap provides a good level of protection to prepayment households by ensuring that they at least pay a fair price for their energy, stopping energy suppliers from making excess profits from prepayment tariffs. It is important that Ofgem commits to extending the cap, for all prepayment households, at least until the next phase of the rollout is complete.

The current phase of the smart meter rollout is due to complete at end of 2025, and we hope that our recommendations are taken on board. If they are not, we fear that some, if not many prepayment households may not have had the opportunity to have a smart meter installed. This, however, may not be the case, and price caps should not be in place indefinitely in order to solve an issue where the technology already exists as a solution. Therefore, the last recommendation in this report is for Government to commit to a post-2025 approach to replacing legacy prepayment meters with smart meters, where legacy prepayment customers who have not yet received a smart meter are given the right to one.

If the right steps are taken, this special measure approach will not be needed. There must, however, be a backstop. The detriment faced by legacy prepayment customers cannot continue to exist, and this report shows the multitude of ways in which smart meters bring value to struggling households’ energy suppliers, and the country as a whole.
References

1. According to BEIS, there are 22.2 million smart meters, and 14% of these are in smart prepayment mode, implying that there are 3.1m smart prepayment meters in operation. [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/968356/Q4_2020_Smart_Meters_Statistics_Reportv2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/968356/Q4_2020_Smart_Meters_Statistics_Reportv2.pdf)


This implies that there are 4.7m legacy prepayment meters left to upgrade. Conservatively assuming that these are all households who use both gas and electricity, this equates to more than 2m households using legacy prepayment meters.


In addition to data from the CMA Energy Market Investigation on the value of switching for prepayment customers [https://www.gov.uk/cma-cases/energy-market-investigation](https://www.gov.uk/cma-cases/energy-market-investigation)