



## *The Money Charity Response - BEIS Smart Meter Policy Framework Post-2020 Consultation (October 2019)*

The Money Charity is a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives.<sup>1</sup>

We welcome the opportunity to respond to BEIS's Delivering a Smart System – Consultation on a Smart Meter Policy Framework post 2020.

In this response, we set out our Key Points, make some overall comments on the issue then answer the questions posed in the consumer engagement section of the consultation paper.

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<sup>1</sup> See box on back page.

## Key Points

1. While domestic smart meters may have a role in the future management of the UK's energy demand, the current consumer offer is not compelling, and is complicated by the risk of energy companies using time-of-day charging to profit maximise via personalised pricing (demand-based price discrimination).
2. The information displayed by the current generation of smart meters is insufficient to enable consumers to understand their main sources of energy demand and how to manage these. What people need to see is their energy demand over time (weekly, monthly, annually) originating from specific appliances (lighting, heating, cooking, entertainment, standby etc) similar to the information available in Nest and HIVE home energy reports.
3. Some uses of smart meters shown in smart meter promotions are likely to drive neurotic or obsessive behaviour not conducive to consumer mental health. Either that or they will be ignored altogether.
4. Higher prices arising from time-of-day charging may fall unfairly on low income or vulnerable people with fewer opportunities for load shifting. For example, young mothers, shift workers, people with multiple jobs and/or people living in houses in multiple occupation (HMOs).
5. Consumers bear considerable costs arising from smart meter installation, without a clear pay-off. For example: time off work, inconvenience, missed installation appointments, time to learn how to use the new meter, mental anguish caused by seeing the meter dial move every time they turn on an appliance.
6. To address the above concerns we propose a package of measures:
  - Develop smart meter technology so that smart meters show energy demand by appliance over defined periods of time (weekly, monthly, annually), recorded in easy-to-refer-to form and enabling consumers to see how their energy demand changes in response to their patterns of appliance use.
  - Ban personalised pricing, i.e. pricing using consumers' individual energy demand and demand elasticity.
  - Align energy pricing with the UK's greenhouse gas reduction strategy, i.e. ensure that higher prices relate not to peak demand per se but to peak use of CO<sub>2</sub>-producing energy production.
  - Smart meter marketing should foreground the environmental reasons for changing the UK's system of energy management, ensuring that these are the actual reasons, so that the marketing information is truthful.

- Compensate consumers for the effort and inconvenience of smart meter installations. We suggest a £100 bonus or a month's free energy.

## Overall Comments

As a financial capability charity we engage with consumers on all aspects of personal budgeting and financial management. We promote behaviours and skills that enable people to get the best out of their money. Choosing and switching energy providers is an aspect of this and we advise consumers to check price comparison sites and switch to cheaper tariffs. So, in principle, we would support new technologies that enable consumers to spend more efficiently and make their budget go further.

That said, we have not yet formed a positive impression of the smart meter programme, nor have we heard positive testimony in our workshops of smart meters saving people money. Without dwelling on issues like the difficulty of switching SMETS1 meters, we simply haven't heard people who have had smart meters installed extolling their virtues. The information provided by smart meter screens seems to be too limited and sometimes people turn them off and put them away. Such evidence as is available suggests that savings induced by the use of smart meters are quite small, in the order of 2-3%, which is unlikely to be enough to generate enthusiasm.<sup>2</sup> It is certainly not enough to enable the UK to achieve its planned CO<sub>2</sub> reductions, which will require major changes in the sources of energy produced, not just in the level of demand.

Our negative impression of the smart meter programme has not been corrected by the abundant information available online about smart meters. Instead we see misleading or unrealistic marketing information, claims of dramatic effect which are not believable and uses of smart meters that, if true, might exacerbate neuroses or obsessive compulsive disorders in people with mental health issues. See, for example, this unlikely image of a smart meter placed next to a kettle:<sup>3</sup>



<sup>2</sup> <https://www.asa.org.uk/rulings/smart-metering-communications-body-ltd-a18-457472.html>

<sup>3</sup> <https://www.newscientist.com/article/2121709-smart-meter-tracks-when-the-kettles-on-to-check-grandpas-ok/>

We do not feel, beyond its novelty value, that the spot information appearing on smart meter displays is particularly useful. For consumers to examine their energy use and make informed decisions they need proper diagnostics, i.e. how much they use to run particular appliances over given periods of time (weekly, monthly, annually). Armed with this information consumers could consider their energy habits and make structured changes. Information like this appeared in the 2012 Intertek report:<sup>4</sup>

Table 3 Summary of average consumption data for all households Appliance type	Average annual consumption (kWh)
Refrigerator	162
Fridge-freezer	427
Upright freezer	327
Chest freezer	362
Washing machine	166
Washer dryer	243
Clothes dryer	394
Dishwasher	294
Oven	290
Cooker	317
Hob	226
Microwave oven	56
Kettle	167
Lighting	537
Audiovisual site	465
CRT television	118
LCD television	199
Plasma television	658
Computer site	240
Space heating (with additional electric heating)	1,505
Space heating (with primary electric heating)	5,249
Water heating (with additional electric heating)	393
Water heating (with primary electric heating)	945

Source: 2012 Intertek report, page 31.

From the above table we can see that the kettle is a relatively trivial source of energy consumption. Space and water heating are the largest contributors. There may be useful cumulative savings from simultaneously changing the settings of several appliances (washing machine, fridge, dishwasher, thermostat, lighting levels), but consumers would need to make a structured decision to do this. Spontaneous changes

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4

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/208097/10043\\_R66141HouseholdElectricitySurveyFinalReportissue4.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/208097/10043_R66141HouseholdElectricitySurveyFinalReportissue4.pdf)

driven by placing a smart meter next to the kettle are unlikely to work. It may be that the biggest changes come from passive adaptations such as installing insulation, double or triple glazing, LED lighting, upgrading appliances, installing solar panels, overnight charging of electric cars, etc.

### The risks of personalised pricing

A further problem with the smart meter programme is that it is not clear that it is actually for consumers. Rather, it appears to be for the industry, but marketed (unconvincingly) as if it were for consumers. We fear that the motivation is to enable the industry to introduce time-of-day charging which will be used for personalised pricing, that is, demand-based price discrimination. The supplier will study the individual consumption pattern of each consumer, then price to that pattern, with the highest prices being at the times of day when the consumer's demand is highest and most inelastic. For example, a young mother who must cook and wash the children at a set time of day and cannot load shift to the middle of the night, or a person with multiple jobs who can only use appliances at a particular time of day.

This type of pricing is used in some other industries, for example general insurance, but has become controversial and is subject to a super-complaint by Citizens Advice to the Competition and Markets Authority. The Financial Conduct Authority is reviewing personalised pricing in general insurance and is giving strong signals that it will ban or restrict this type of pricing.<sup>5</sup>

We recommend that Government and Ofgem ban personalised pricing as part of a revamped consumer offer on smart meters. If the threat of personalised pricing were to be removed it would be much easier to build consumer confidence and for charities and consumer groups such as The Money Charity to become involved in encouraging the use of smart meters.

In our view, the tariff adopted by the industry should support the UK's CO<sub>2</sub> reduction targets, ie it should encourage load shifting from CO<sub>2</sub>-producing energy to renewable energy. Time-of-day charging should be standardised for all consumers using this criterion, not used to profit-maximise based on the individual consumer's demand elasticity.

## Answers to consultation questions

We focus on those questions that relate to consumer engagement (pages 29 onwards in the consultation document):

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<sup>5</sup> <https://www.fca.org.uk/publications/market-studies/ms18-1-general-insurance-pricing-practices-market-study>

Q15: What types of coordinated consumer engagement activities are necessary in the period after 2020 to support delivery of a market-wide rollout?

Q16: What policy amendments or new initiatives do you consider will be required to ensure that the consumer benefits of smart metering are sustained?

Q17: What other policy measures should the Government consider in order to complement the proposed market-wide rollout obligation?

Reflecting the evidence and views in our Overall Comments, we propose a package of measures to align the smart meter programme with the interests of UK consumers and with the UK's CO<sub>2</sub> reduction targets:

- Develop smart meter technology so that smart meters show energy demand by appliance over defined periods of time (weekly, monthly, annually), recorded in easy-to-refer-to form and enabling consumers to see how their energy demand changes in response to their patterns of appliance use. The Nest and HIVE home management systems provide a model of what this might look like.
- Ban personalised pricing, ie pricing using consumers' individual energy demand and demand elasticity to set individual prices.
- Align energy prices with the UK's greenhouse gas reduction strategy, ie ensure that any higher prices relate not to peak demand per se but to peak use of CO<sub>2</sub>-producing energy production, with the option of shifting to renewable energy supply.
- Smart meter marketing should foreground the environmental reasons for changing the UK's system of energy management, while making sure that these are the actual reasons, so that the marketing information is truthful.
- Energy firms should compensate consumers for the effort and inconvenience of having smart meters installed. We suggest a £100 bonus or a month's free energy.

We think that a package such as this would be attractive to consumers and would engage charities and consumer groups such as The Money Charity in helping promote the installation and use of smart meters.

Once an attractive and convincing consumer offer has been developed, we suggest that Government via Smart Energy GB increase the spend on marketing partnerships with the charity and consumer sector. Endorsement by such groups would improve the climate of public opinion for the smart meter programme. However, the offer will need to be genuinely beneficial for consumers. This is the first priority.

The Money Charity is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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