

# Policy Submission

## **Consultation Paper on Smart Metering**

**Submission to the  
Commission for Energy Regulation**

**April 2007**



**Submission to the Commission for Energy Regulations:  
Reference CER /07/038 - Demand Side Management and  
Smart Metering – Consultation Paper**

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## **Introduction**

We welcome this opportunity to comment on the Commission for Energy Regulation's consultation on Demand Side Management and Smart Metering.

The Combat Poverty Agency is a state advisory agency which develops and promotes evidence-based proposals and measures to combat poverty in Ireland. Our work spans a range of issues relating to poverty in Ireland, including specific areas of deprivation affecting those in poverty. Fuel poverty is one such issue.

Fuel poverty refers to the inability of households to adequately heat their home. Depending on definitions, fuel poverty affects between 14 percent and 17.4 percent of households<sup>1</sup>. Recent increases in energy prices are likely to result in a rise in the number of households experiencing fuel poverty.

We welcome the proposed introduction of Smart Metering and Time of Day Tariffs and believe that overall they have the potential to help those at risk of poverty to manage their resources more effectively and avoid fuel poverty.

Specifically, our comments on Demand Side Management and Smart Metering and Time of Day Tariffs are as follows:

### **Time of Day Tariffs**

We agree with the Commission that Time of Day Tariffs are appropriate for domestic customers. Time of Day Tariffs will allow price sensitive customers to modify their energy usage to take advantage of price differentials at different times of the day. They also provide clarity and certainty for customers regarding energy prices, thus allowing people to plan ahead more effectively to meet their electricity needs. Customers who reduce their usage during peak demand times will benefit from cost savings. We anticipate that because low income groups, by necessity, tend to be more price sensitive than higher income groups, this measure has the potential to result in higher cost savings for those at risk of poverty. Currently 18.5 per cent of the Irish people are risk of poverty<sup>2</sup> (i.e. they are living on incomes of less than €193 per week). Relatively small price differentials between peak and off-peak times may therefore encourage this group to modify their energy usage patterns. However, it is unlikely that this group will be able to significantly reduce their overall level of electricity demand as many will already be operating at a minimal consumption level.

- Some groups at risk of poverty may not be in a position to change their energy consumption levels at peak times. For example, people with disabilities, people caring for children and older people all may have higher dependence on energy during the daytime. Provisions for vulnerable groups, such as special payment plans, discounted rates or assistance with improving

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<sup>1</sup>Data from the 1999/2000 CSO Household Budget Survey indicate that 14 percent of households experience fuel poverty, as measured by households spending more than 10 percent of gross income on fuel and light; this rises to 21 percent if the calculation is based on disposable (rather than gross) household income. A middle-bound figure of 17 percent is produced for 2001 based on a national household survey in which fuel poverty is self-reported (see J D Healy (2004), *Housing, fuel poverty and health: a Pan-European analysis*, Ashgate: Aldershot and New York).

<sup>2</sup> EU Survey on Income and Living Conditions, Central Statistics Office, Dublin 2006.

the energy efficiency of their homes should be considered in order to reduce fuel poverty.

### **Cost Savings**

- We note that the Commission for Energy Regulation anticipates that the introduction of Smart metering and Time of Day Tariffs will result in cost savings for energy suppliers due to reductions in peak time demands, lower levels of theft, savings on meter readings etc. In order to optimize the benefits for low income groups and reduce fuel poverty, it is important that these savings are passed on to customers.

### **Voluntary or Mandatory**

- Under Time of Day Tariffs, it is likely that domestic electricity prices will reflect the fact that production costs are higher during the winter and lower during the summer. This may create budgeting difficulties for low income households. In the event that a mandatory Time of Day Tariff system is adopted, we would strongly support the introduction of flexible payment schemes by electricity suppliers that would enable customers to smooth payments across the year. This way low income customers can still benefit from price differentials by reducing their demand at peak times without having to significantly change their budgeting patterns from month to month.
- We note that mandatory introduction of Time of Day Tariffs is the preferred approach of the Commission for Energy Regulation as it ensures that customers who respond to changing prices receive the full benefit of their actions. Under a voluntary scheme, those with high peak time energy demands may opt out and thus undermine the potential cost savings for the entire market. We therefore do not think it is desirable for people to opt out of Time of Day Tariffs. However, certain vulnerable customers, such as older people, people with specific health problems or with literacy problems may initially find the proposed new system difficult to understand, or find it difficult to modify their energy consumption patterns to take advantage of the price differentials. They will therefore need additional support in the event that a mandatory system is introduced.

### **Communications**

- To support the roll out of Time of Day Tariffs, an effective communications programme that places particular emphasis on vulnerable groups will be needed to ensure that customers are aware of the new price differentials. This should incorporate an education programme which tells people how to read and interpret the information provided by their Smart Meter in order to control their energy bills more effectively. Without adequate communication or consumer education, there is a risk that certain customers may not modify their electricity consumption patterns. This could potentially result in much higher costs for vulnerable customers, in particular those with literacy difficulties or older people.
- The availability of separate display units linked to Smart meters will help people to track their energy usage over time, and remain better informed regarding energy prices. These units should be supplied as standard with

Smart meters, and should be adapted to suit the needs of certain individuals with hearing or sight impairments.

### **Roll Out**

- Ideally, Smart meters and Time of Day Tariffs should be introduced in parallel and all customers would operate under the new tariffs from a certain date. This would help to simplify the introduction of the new tariff structures (and the associated communications programme), and would ensure that all customers benefit equally from the outset. However, if a phased approach is adopted, we propose that this is introduced over a short timescale by geographic areas, and not by customer size.

### **Pre-payment Option**

- Low income households often favour staged bill payments to suit their budgeting habits. Research conducted by Combat Poverty in 2006 on the issue of Financial Exclusion<sup>3</sup> shows that where energy suppliers offer 'pay-as-you-go' cards, which allow customers to build up a credit balance in advance of their bill arriving, it helps them to manage their money more effectively and have greater control over their budgeting. Other research on lone parents shows that users who had previously fallen into arrears, are now managing their finances more effectively with 'pay as you go' facilities, as it offers them stricter control over their budget. The pre-payment option offered by Smart Metering Technology is therefore likely to assist low income households, and reduce bad debts.

### **Disconnections**

- We understand that under the new Codes of Practice for Consumer Protection introduced by the Commission for Energy Regulation, disconnections should be an action of last resort. A technician charged with disconnecting a property has the discretion to leave the energy supply connected under certain circumstances. The ability to disconnect a customer remotely through a Smart Meter may undermine this flexible approach, as the energy supply company will not be in a position to assess the circumstances in a household before disconnecting the property. We therefore feel that remote disconnections should not be permitted. Limiting the energy supply to the household to accommodate only energy basic needs in the event of non-payment provides a viable (remote) alternative, but should also be considered a last resort.

### **Consumption Restrictions**

- The ability to use Smart Meters to limit a customer's electricity consumption offers a number of potential benefits to low income consumers including as, noted by the Commission, assistance in paying off outstanding bills. This facility should however be used with care. There is a distinction between those who won't pay, and those who can't pay, and it is often the case that those who can't pay are already limiting their energy usage to the minimum they can survive on (often to the point that they are risking their health). A decision to limit energy consumption in a household should therefore only be carried out following discussions with

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<sup>3</sup> Financial Exclusion in Ireland: an Exploratory Study and Policy Review, Corr, C., Combat Poverty Agency, Dublin 2006

the householder to assess the circumstances. In some cases, the existence of children, older people or people who are sick or disabled, may make it impossible for a household to survive on less energy at particular times of day.

- Energy suppliers should offer all customers the option of applying a limit on their monthly or weekly energy supply (not just those who display difficulties with payment). This would provide low income households with certainty around their maximum level of energy consumption in any given time period, and as such, could assist them in their household budgeting.

#### **Remote meter reading**

- The ability to read meters remotely and therefore bill customers on the basis of actual rather than estimated readings will avoid situations where, following a period of bills based on estimated readings, customers find that their actual bill is considerably higher. This is a particular problem for low income groups.

#### **Regulatory Treatment of Costs and Benefits**

- Although fuel poverty is a phenomenon experienced in both private and social housing, the level of fuel poverty in the private rented sector is almost three times higher than that found among mortgage-holders. People in rented accommodation may move in and out of different properties over relatively short periods of time. On this basis, we do not agree with upfront or frontloaded charging to recoup the network costs of introducing Smart Meters. People in rented accommodation may not stay long enough in those properties to recover these initial costs. Indeed, neither they, nor low income groups living in private housing, may be in a position to cover a high once off or a short period of higher prices at all. Therefore, in the absence of further information, our preferred option is for charges to be smoothed to reflect costs and benefits over a number of years.
- We note however that this may cause financial difficulties for ESB Networks and that the Commission intends to explore all of the options further as the actual costs become clearer. As part of this further exploration, the implications for low income groups, particularly those in rented accommodation, should be explored and measures to ensure that they are not unduly burdened by high upfront charges should be considered.