



Sustainable Energy Association

Flexible and responsive energy retail markets: consultation

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819624/flexible-responsive-energy-retail-markets-consultation.pdf

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Response submitted by: Sustainable Energy Association

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About the Sustainable Energy Association

In a world of finite resources, the Sustainable Energy Association exists to help create living and working spaces fit for future generations. Our work seeks to align the interests of business, politicians and consumers to make this a reality.

We are industry leaders in energy in buildings. We are technology agnostic and provide objective, evidence-based policy positions which help shape how we think about, generate and use energy. We are constructive, collaborative and committed to achieving our vision, by ensuring that buildings are energy efficient, low carbon and warm.

The Sustainable Energy Association (SEA) is a member-based industry body. We draw on our wide-ranging membership from manufacturers of energy saving technologies and heating systems to housing associations with an interest in sustainable energy. SEA member's manufacture, distribute, install, retail or regulate a range of technologies, they also own and manage homes and supply energy. We take an objective 'whole building, technology agnostic approach' that recognises that there is no single solution to the energy challenges faced by the UK.

1.	Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?
	<p>Generally yes, the SEA agrees with the vision set out for energy retail markets in 2050 particularly that a smarter and low-carbon energy system will rely on increases in the uptake of new and innovative technologies that the current retail market is not fit for.</p> <p>The use of demand-side response, vehicle-to-grid charging and other smart technologies has already had a large impact on the way in which people use energy today however in future this is likely to become even more widespread and the energy market will need to adapt to this.</p> <p>Collaboration will be crucial for a successful transition to a smart and low-carbon energy system and as such the Government should continue to work with industry and academia as well as with other government departments, particularly HMT, and regulators such as Ofgem to make sure that changes are practical and ambitious enough to achieve the 2050 vision.</p> <p>SEA members highlight that the temporary nature of the default tariff price cap and that in the longer run, the price cap risks distorting incentives and innovation to the detriment of consumers. Our members have engaged with both BEIS and Ofgem to try and ensure that the move away from the Default Tariff Cap happens as soon as possible ahead of the definite end in 2023.</p> <p>For supporting vulnerable customers and making sure that the market is fair for them, we support the BEIS and Ofgem joint review of the current retail market arrangements with a view to scoping future opportunities and challenges for the long-term. Our members agree that there be a need for ensuring protection for the most vulnerable customers which could take the form of a 'social tariff' price cap targeted at this group. Such a scheme would include an aspect of levelisation to ensure the costs of the social tariff are shared fairly by the customers of all suppliers. Differing to the Warm Homes Discount, the social tariff price cap approach would link the scale of support for vulnerable households to the quantity of energy consumed.</p>
2.	Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?
	<p>The SEA has no specific evidence of products, services and business models blocked by the current regulatory framework however we support the reformation of the framework to allow such products, services and models to have an easier route to market in future. This would in turn create benefits for the consumer and the economy as a whole as innovative aspects can be brought to market, helping the consumer save energy and therefore money, reducing</p>

carbon emissions in line with net zero and grow the economy whilst doing so in line with the Clean Growth Strategy.	
3.	<p>Are there current or emerging harms to energy consumers which are currently out of scope of the regulatory framework? Do these differ for domestic and non-domestic consumers?</p> <p>The SEA supports the Government's suggestion for an adjustment to the specifics of the obligated supplier system and potentially the removal of small supplier exemptions to create a fairer energy market where larger suppliers do not have larger administrative burdens and costs placed on them. Therefore we welcome the Government's review into whether the current supplier obligation is right for the future and would support research and consideration of a central pot or auction model in place of an obligation scheme.</p> <p>Linking to the 'worst first' principle, the focus of energy efficiency schemes moving forwards should be on solid wall properties that are hard to treat. Given these complexities, SEA members have suggested that this is specialist construction work, not suited to energy companies that are more equipped to address low-cost, simple energy efficiency measures.</p>
4.	<p>Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?</p> <p>Yes, it would be beneficial as the specific needs of that set of customers can be met in a way which also makes business sense for the supplier. Making a more flexible energy retail market would mean that the needs of consumer and supplies can be more easily met as there is scope for targeted packages to be created which are better designed and more cost-effective for both parties.</p> <p>We recognise that this may provide an administrative challenge for Ofgem as well as suppliers would be subject to different rules which may change should they move the focus of their offerings. Ensuring universal service may also be a challenge as there are differing rules for the different sectors. Ongoing collaboration and discussion with industry and consumer groups such as Energy Saving Trust and Citizen's Advice would be helpful for this.</p>
5.	<p>Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?</p>

The SEA recognises benefits to both of these approaches. Incremental changes would allow time for consumers and businesses to adjust and familiarity with existing systems will be helpful in ensuring that all parties active within the energy system are aware of the changes, the timescales and what is expected of them. However a more radical, modular approach may be more appropriate for an energy system that is rapidly changing. This approach is likely to take some time to understand and optimise but we feel that the ability to subject different businesses and parties to different rules depending on their relevance makes logical sense. It would also allow increased clarity for businesses if an easy to use tool or quiz was created to promote the provision of information on what they need to do to gain the necessary certification and comply with regulation.

Demand-side response and other smart appliances are likely to play an important role in the future energy retail market so this should be encouraged through the introduction of the modular approach. Any adjustments to existing regulations that makes their implementation easier should be a priority for government.

The longer-term view to a radical change to the regulatory system taken in the consultation document is likely to be necessary as widespread changes will require significant resource for relevant parties to get used to. We would therefore support a long transition period with regular contact with industry throughout to ensure that new systems and practical and effective.

6.

Are there any other potential market distortions we should be considering as part of our review?

We fully support the review of market distortions, but do not know of any other distortions that should be considered.

7.

Would removing the thresholds for the Energy Company Obligation and Warm Home Discount help remove imbalances in the retail market, and could this be done without significantly increasing barriers to supplier entry or expansion in the retail market?

The BEIS Select Committee recommended in their Energy Efficiency: Building towards Net-Zero report that funding for ECO should be reformed so that there is a three-tier system consisting of ECO, centrally funded local authority schemes, and a further national funding safety net, to provide a comprehensive strategy for energy efficiency for fuel poor households.

The threshold currently in place of 250,000 customers to be obliged under ECO should also be considered in the review. Smaller and newer energy suppliers may want to get involved and should be able to do so voluntarily. This would help to increase the number of homes in receipt of energy efficiency measures in line with the Government's target to upgrade all

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homes to EPC Band C by 2035 and may even the playing field between large and small energy suppliers.

In regards to the Warm Home Discount, the BEIS Select Committee also state in their July energy efficiency report that “It is disingenuous of the Government to include the Warm Homes Discount in the energy efficiency fuel poverty figures as this distorts evidence of progress and obscures the true number of households that will be missed under the Government’s 2030 statutory target. We recommend that the Government no longer counts the Warm Homes Discount towards fuel poverty energy efficiency targets.” And this is something the SEA advocates.

8. How could the delivery burden on suppliers from the Energy Company Obligation be reduced, for example through the introduction of a buyout mechanism?

As well as introducing voluntary subscription to the ECO scheme, a buyout mechanism may also help to fairly distribute the costs of ECO across energy suppliers of all sizes. Subject to its format, this would be supported by the SEA as we welcome the opportunity to create innovations in the energy retail market and ensure that ECO works as it should. However any buyout mechanism should be carefully considered by government, and any auction or other format should be subject to consultation with industry.

9. What effect does the range of Energy and Climate Change Policy Levies have on the retail market?

Energy and climate change policy levies have a positive impact on the areas they seek to address, and the SEA understand the need for them. However with fuel poverty still an important issue to overcome in the UK, and ultimately consumers paying the levies on their energy bills, a review of their necessity should be undertaken in order to try and create a fairer and more effective energy bill.

10. What actions could government take to reduce any negative impact of Energy and Climate Change Policy Levies?

For some time, the SEA has recommended that the levies and charges placed on gas and electricity bills be reviewed so that they are more fairly distributed and fossil fuels are not advocated ahead of low-carbon electricity by being subjected to fewer charges resulting in a lower price. The Committee on Climate Change also recommend this in their net-zero report to ensure that homes are incentivised to move to low-carbon heating:

“A review of the balance of tax and regulatory costs across fuels in order to improve alignment with implicit carbon prices and reflect the progressive decarbonisation of electricity: costs are significantly larger for electricity than gas or oil heating, and the full carbon costs are not

reflected in the pricing of heating fuels. These factors currently weaken the private economic case for electrification”.

The SEA fully support this recommendation and would also wholly support the review when it comes out. The Government should make reviewing the costs and levies placed on gas and electricity a priority to align with the decarbonisation of heat, clean growth strategy, net-zero target and fuel poverty strategy.

11.

Do you agree that now is not the time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review?

Agree. There is already significant work going on in the metering sector and suppliers are at full capacity with meeting current administrative demands in this area.

12.

What total costs do suppliers face with regards to bad debt and supporting consumers who struggle to pay for their energy?

No comment.

13.

How could any potential distortions related to high cost-to-serve customers be addressed, for example by the provision of additional support services for customers struggling to afford their energy?

No comment.

14.

Would addressing market distortions (for example size-based obligation thresholds for some policy schemes, supporting those who are struggling to afford their energy bills) help reduce incentives for suppliers to adopt pricing strategies that lead to excessive prices for loyal consumers? If so, to what extent (providing quantitative evidence, where possible)?

The SEA believes that addressing market distortions and making it easier for the consumer to navigate the energy retail market would help to reduce the incidence of the loyalty penalty. Access to impartial advice would also be helpful and support for vulnerable customers as well as those who are limited on time and capacity.

15.

What are your views on the measures being considered to address loyalty penalties in different markets? What approach or – combination of approaches – would be most effective in the energy retail market?

No comment.

16.	What other approaches could be adopted to ensure loyalty penalties do not re-emerge?
No comment.	
17.	What protections or support may be required to engage consumers in vulnerable situations in the future market?
It will be necessary to ensure that vulnerable customers have access to impartial advice and easy to use services that help them navigate the complex energy retail market. Identifying groups that could help with this, such as charities, and giving appropriate resource to local authorities who are sometimes best placed to act with vulnerable people would also be helpful.	