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microgen

Iain Osborne
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Office of Gas and Electricity Markets
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RESPONSE BY EMAIL ONLY

13 February 2004

Dear Iain,

Microgen comments on the Ofgem consultation 'Testing domestic consumer take-up of energy services: trial suspension of the 28 day rule'

We welcome the opportunity to contribute to the development of this trial.

Improved energy efficiency brings real benefits to customers and the environment. These benefits are obvious to customers, but that does not necessarily mean they are accessible. Typically, the customer may need to spend money today, in order to save more money in the future. An 'energy services' approach can help customers access the benefits of energy efficiency measures. The increased take-up of energy efficiency measures will, in turn, drive down their cost, and make them more accessible.

Energy services offerings provide customers with confidence in energy efficient products, and in their relationship with suppliers.

Domestic customers have a lot to gain from energy services, but this market sector has not yet been effectively tackled. Allowing these customers to access a range of services, and enter into a long term agreement with a supplier, would give a boost to the development of energy efficiency services.

We support the introduction of a trial to remove the 28 day rule for energy services offerings.

The work of the Energy Services Working Group has already established the background to the trial. Its success is now dependent on the detail of the trial, its implementation, and the involvement of suppliers and government agencies in delivering and promoting it.

If the trial is to have value as a learning exercise, it is important to avoid removing the constraint of the 28 day rule only to replace it with different constraints (particularly because new constraints introduce new, unquantified, effects). The detail of the trial is therefore of great importance, and we have a number of comments on it, which we believe will help maximise its value.

Our response to the consultation comprises this letter and its two appendices:

- Appendix A contains our detailed response to the consultation.
- Appendix B provides information on our company and the Microgen product.

Please contact me if you would like to discuss these comments in more detail.

We look forward to the development of the trial and its successful implementation.

Yours sincerely

G Roberts

Graham Roberts
Regulation Manager – MicroGen

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Part of BG Group

Appendix A - Response to the consultation

In this appendix, the term 'Supplier' means a licensed gas or electricity supplier.

The question numbers refer to the paragraph numbers of questions in the consultation paper. Ofgem's questions (abridged where appropriate) are presented in italics.

Q 4.6 Respondent's are asked to comment on Ofgem's proposal to conduct a trial suspension of the 28 day rule, and the proposed objectives.

- We support the trial, and believe it offers the opportunity for Suppliers to demonstrate how customers can benefit from energy services packages.
- The trial must allow flexibility in how energy services packages are put together, presented to consumers, and administered. This might include packages in which the Supplier acts as an agent between the consumer and the provider of the energy services products.

Q5.7: Ofgem invites comments on its proposals for a 4%/50,000 customer limit, and for a two year trial.

- We think this is a sensible size of trial. If the trial is shown to be very successful inside its two-year life, flexibility should be built in to allow it to be extended.

Q5.9: Ofgem invites comments on the proposed definition of energy services, particularly:

i. Should a 15% threshold be set (and is this sufficient to prevent 'cherry picking')?

- The 15% limit is too high. Customers will be best served if there is a wide choice of different energy services packages. This is best achieved by setting a threshold that encourages as many options as possible.
- A lower threshold should be set. This should not be allied to complex 'cherry picking' provisions, which will act to constrain choice for consumers. The trial must be as free as possible from additional regulation if it is to result in a true picture of the potential for energy services packages.
- In particular, there should be no requirement that the offering must (to quote from paragraph 5.9.5) "*include all of the most common measures, if specified in the home audit as relevant to the customer*". This would rule out the customer's views, which is clearly not in their interest.

ii. How the reduction in energy supplied should be measured

- The 'reduction in energy supplied' or assessment by carbon emissions avoided, must recognise not only avoided imports of energy by the consumer, but also include energy exported from a consumer with a micro-generator. This exported energy is 'used' by the next-door neighbour, so network use, and large-scale generation output, is reduced in just the same way as if the energy had remained in the micro-generator owner's home.

- iii. *The proposal that customers should save money as a result of the package (and what discount rate should be used to assess this).*
 - It is unclear what value this would proposal would have in a scenario in which multiple options are available to consumers, and they are free to make their own choices. As noted above, the trial should be viewed as exactly that – a trial. Its results should be used to assess whether the additional burden of regulating and monitoring this aspect is of value to consumers.
- iv. *The proposal to allow up to one-third of the total cost to be paid up-front by the householder.*
 - Again, this would be better left to the market to decide – this threshold is something that could be assessed from the results of the trial – and need not be pre-determined, which could limit the ability to learn from the trial.

Q5.10: *Comments are requested on the proposed duration (of contracts) - Ofgem propose 5 years.*

- We agree 5 years is appropriate.

Q5.12.2: *Ofgem welcome views on how indexation of prices for energy supplied should be applied, and how notification of price increases should be managed.*

- If indexation is used, a simple system is required – the suggestion to use DTI's retail energy index appears reasonable. The other options (fixed prices, and capped prices) should also be open.

Q5.12.6: *Ofgem welcome views on the proposals for a written quote and an independent second opinion.*

- A written quote is a sensible means of ensuring the customer has been presented with accurate and relevant information, and that an audit trail exists to guard against mis-selling.
- The provision of an independent second opinion may result in unnecessary bureaucracy and prohibitively high costs. Instead, a random audit of surveys, quotes and contracts is more likely to ensure customers protection, and be simpler for customers, Suppliers and Ofgem.

Q5.12.8: *Ofgem invites views on its proposed approach to cooling off periods*

- We agree with Ofgem's assessment, and concur that normal consumer protection rules should apply.

Q5.12.9: *Ofgem would welcome comment on whether its proposed termination arrangements would be appropriate, and whether there are other situations in which a right to terminate would be appropriate.*

- Allowing consumers to terminate contracts when they move home, by paying off outstanding debts and charges, is sensible.
- The proposal that customers may terminate if they believe the contract to be in breach of the Supplier's licence terms is founded on an unnecessarily pessimistic view of Suppliers, and an unrealistic view of how interested and informed of licence conditions will be the customers. The proposal appears to suggest that customers can unilaterally decide that a Supplier is in breach, and simply rip-up the agreement. This is unworkable.

Q5.12.10: *Ofgem would welcome views on whether the provision of product guarantees should be regulated.*

- We agree that the competitive market is best placed to deliver what customers want here. Any other approach would be outside the scope of existing regulations in the energy market. Extending the reach of regulator and regulations into this area would be very complex and fraught with difficulty.

Q5.16: *Comments are requested on Ofgem's approach to enforcement and verification.*

- The proposal that Suppliers report progress on the trial to Ofgem is reasonable.

Q6.3: *Comments are requested on Ofgem's proposed approach to evaluation, and on the key priorities.*

- The customer perspective is very important in evaluating the scheme. Rather than approaching this from a negative standpoint, and only researching customers' views on 'consumer protection', the evaluation should be more open minded – and seek to cover customers' perspectives on choice, value and service.

Comments are requested on the draft Regulatory Impact Assessment (RIA)

- We welcome the completion of an RIA, which is an important stage in the development of all regulatory proposals. We invite Ofgem to consider the issues above in the next issue of the RIA, particularly where new provisions are being considered within the trial which may distort the results.

Appendix B - Microgen

Microgen Energy Limited is developing a micro Combined Heat & Power (micro-CHP) unit. We are part of BG Group.

The Microgen unit is a replacement for the wall-hung heating and hot water boilers installed in most of Britain's houses.

The unit will offer consumers the opportunity to heat their homes and produce electricity very efficiently. Microgen units will:

- allow consumers to save money on their fuel bills;
- help reduce greenhouse gas emissions;
- reduce losses on the electricity system;
- increase security of supply; and
- enhance competition.

The benefits of micro-generation (which include, but are not limited to micro-CHP) are acknowledged throughout government and the industry.

Further information can be found on our website:

www.microgen.com

Our parent company is BG Group:

www.bg-group.com