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Sent by Email

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Dear Anna,

CRC Energy Efficiency Scheme – Response to Revised Licence Condition Guidance

Thank you for the opportunity to comment on the revised guidance.

Overall, we also welcome the revisions to the guidance. However, we have strong concerns about clause 2.12, which introduces a significant and late change compared to the 23 August 2010 version (clause 2.10 refers in that document).

From the outset, we have proactively engaged in discussions with Ofgem, DECC, Suppliers, the Environment Agency, and CRC participants, specifically regarding billing cycles and the issue of not being able to report “from” and “to” dates that match exactly the relevant compliance year.

Output from previous work on the licence condition guidance led us to believe that consensus had been reached on this issue to the effect that matching would not be required. We were therefore surprised to see proposed wording of clause 2.12 take a contradictory position. Not only will we have to build this new requirement into the Annual Statements, but the timing of this request leaves suppliers with only three months to design, implement, and test, complex IT changes to ensure that the April 2011 annual statements comply with the guidance.

While we understand the scheme is undergoing a significant review with several recent changes being made, these have been accommodated by postponed implementation. For example, the removal of the allowance recycling mechanism and purchasing of allowances has been put back until June 2012 (the initial proposal was April 2011). However, no exceptions have been made for changes to the Annual Statement deadline. Given the need for complex IT changes described above, we believe that it is reasonable to also defer the implementation of 2.12 by a year.

We believe that the financial impact of postponing 2.12 would be immaterial to participants in the first year (2010/2011) as allowance purchasing now starts in June 2012 (based on 2011/2012). Although the 2010/2011 Annual Statement will be used in the scheme as the footprint report, the potential difference in terms of overall consumption between applying the former guidance methodology and the new guidance would be marginal for CRC participants. We therefore do not believe there is a case for a rushed implementation of 2.12.

In addition to the Clause 2.12 issue, we have two other concerns with the proposed guidance. These are summarised below, and are described in more detail in the attachment to this letter.

Reporting for the start of the compliance year

Where a supply period covers two compliance years and the read associated with the period is based on an "actual", we understand that this period will be deemed an "estimated" read (Ofgem's email confirmation of 21 December refers). However, we are concerned that this will unnecessarily impact participants, as the apportionment for the period will be based on actual consumption.

The final consumption period and complete Annual Statements

Clause 2.13 outlines scenarios where a period of the Annual Statement cannot be completed. However, the revised guidance omits "billing cycles" as an example reason, despite the fact that it appeared in the 23 August version. We are pleased that Ofgem has confirmed this example will now be covered in the guidance (Ofgem's email confirmation of 21 December refers).

In addition and as previously agreed with Ofgem following August 2010 consultation, we will be unable to accept reads as "actual" for the Annual Statement if they have not been validated by industry processes.

We would also like clause 2.13 to recognise that a statement maybe produced before a supply period end date relating to the compliance year. Where this occurs, we would be unable to report on known estimated or actual consumption because the period will not be complete. As discussed and confirmed by Ofgem (with the above), there is no intention that suppliers should forecast estimated consumption. A suitable amendment to the clause should confirm this.

We also welcome Ofgem's recognition that suppliers should be able to choose a methodology for reporting from 1 April. However, we urge Ofgem to be mindful, that different approaches taken by suppliers may cause some participant/auditor dissatisfaction.

We welcome the opportunity to discuss our concerns further. If you have any queries please contact my colleague Siobhan Hyland on 0787 5110 850, or myself.

Yours sincerely,

Tiphaine L'Henoret
Policy and Regulation Manager, B2B

Appendix 1

1. Reporting for the start of the compliance year

In order to meet the new requirements imposed by clause 2.12 for 1 April, the relevant suppliers will be required to prorate a daily consumption (except where the supply period does not start on 1 April). However, despite the fact that such prorating could be based on actual reads, we understand that Ofgem will consider them to be “estimates” (Ofgem’s email of 21 December refers) within the meaning of the scheme. Such an approach would be likely to cause difficulties for participants because of penalties associated to the 10% estimation rule. We believe that Ofgem should reconsider its policy in this area.

2. The final consumption period and complete Annual Statements

Clause 2.13 states:

“... There may also be instances when a supplier cannot provide a complete statement of supply for the entire CRC year 1 April to 31 March. For example, there could be time periods within the CRC year when supply information cannot be provided or estimated by the supplier owing to: a dispute on the account, where meters are being changed, or where the supplier is awaiting a closing meter reading as part of the change of supplier process...”

We welcome the example scenarios provided. However, we notice that it currently omits “billing cycles” as a reason. This was covered in the previous guidance (23 August 2010) and was originally included by Ofgem in June 2010 following discussion with the Environment Agency and suppliers. This issue impacts quarterly bills in the main, as they are unlikely to bill with the supply period ending on 31 March.

For example, the supply period covering 15 March to 14 May and billed a few days later, would not have completed for reporting prior to 12 May because “supply information cannot be provided” (clause 2.13). Since the scheme is based on “supplied” consumption, forecasting estimates would not be in the spirit of the scheme, and nor would it be practically possible to mix estimated and actual consumption billed with an estimated forecast.

A consensus was reached in June, which provided the basis for the insertion in the 23 August 2010 guidance. We are pleased that Ofgem have re-confirmed this example and has said that it will be inserted into the final guidance and therefore that that Ofgem do not intend that any forecast estimates will be required. (Ofgem’s email of 21 December refers.)

Also, and as stated in our previous response to 23 August 2010 consultation, suppliers would not accept participants’ meter readings for exact scheme dates where they do not pass validation. Clearly, the acceptance of non-validated readings would be inappropriate as it would open the CRC to potential abuse.

While the concerns raised above apply mainly to quarterly bills which are non-core fuels (e.g. Electricity profile classes 1-4, and Gas sites <732,000kWh), the scenario may apply to some specific customers who have four weekly billed cycles.

To accommodate the start and end of each compliance year, a change to the bill's supply period would be required. However, for quarterly meters, this would impact the scheduling of meter readers (which is normally driven by geographical factors and is often outside a supplier's control).

We are committed to making the reporting process positive for the participant and continue to explore avenues within current systems. A more practical solution might be to trigger ad hoc bills so that supply periods end on 31 March. However, there would be detrimental impacts on industry processes, the customer's ability to accept additional bills, and associated impacts on a customer's cash flow, as well as costs on suppliers facilitating these changes.

We also believe that clause 2.13 should recognise more specifically that with only six weeks to complete and deliver the Annual Statement process, suppliers will need to start the process on 1 April in order to meet all requests accurately. Therefore, if a quarterly supplied period covered 1 March to 30 April, it will not be possible to pro rate, if the Annual Statement is created before 30 April, as *supply information cannot be provided*" (clause 2.13). To recognise this scenario, we recommend the below adaptation (in bold) to clearly set expectations.

*".....For example, there could be time periods within the CRC year when supply information cannot be provided or estimated by the supplier owing to: **an incomplete billing cycle**, a dispute on the account, where meters are being changed, or where the supplier is awaiting a closing meter reading as part of the change of supplier process **prior to the creation of the annual statement** " .*

We continue to recommend as per clause 2.13, that where the bill has not been provided in time, the participant is obligated to follow the Environment Agency's guidance to either take their own meter readings on 31 March, to estimate, or to await their next bill and self pro rate consumption.

EDF Energy
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