

Carillion Energy Services Response to the Ofgem Consultation on Promoting Smarter Energy Markets

Carillion welcome the opportunity to respond to Ofgem's Consultation on Promoting Smarter Energy Markets. In order to put our comments into context, it may be helpful to outline briefly our role in the provision of energy services across the UK and Ireland.

Carillion is one of the UK's leading support services companies with a substantial portfolio of Public Private Partnership projects and extensive construction capabilities. The Group has annual revenue of over £5 billion, employs around 46,000 people and operates across the UK, in the Middle East, Canada and the Caribbean.

Carillion Energy Services, a division of the group, are a leading independent energy services provider and one of the largest installers of renewable technologies and domestic heating services in the UK. We currently operate within the Private, Domestic, Social and Commercial market sectors offering a wide range of energy efficient renewable technologies and domestic heating services to our customers. CES has the ability to source responsive funding solutions, design & implement a customer centric offering and deliver the installation of required measures with the support of an established supply chain network.

We manage Warm Front on behalf of the Department of Energy and Climate Change and we also have experience of managing fuel poverty and energy efficiency schemes throughout the United Kingdom. In addition to these programmes we deliver the Switchover Help Scheme on behalf of the BBC we have extensive knowledge of assisting vulnerable and hard to reach customers.

Carillion Energy Services are committed to helping the environment and combating climate change; as referred to above we have a history of providing energy efficiency and renewable energy solutions to private housing and social housing and we will be increasing our activity in these sectors as well as expanding our commercial energy services offer taking a total energy management approach.

Within our Carbon Services team, we support the largest number of area-based programmes in the UK, leveraging multiple funding sources to accelerate delivery against policy objectives and drive the Government's climate change and carbon reduction agendas. Our work with the UK's major utilities and energy suppliers allowed us to deliver a total carbon saving of 6.2 million tonnes from energy saving measures and products in 2011.

Carillion Utility Services work with a number of major utility companies providing a range of infrastructure services including the installation of

electricity and gas meters. We have been installing smart meters through a number of trials since 2008.

For further information on Carillion Energy Services or Utility Services please visit:

<http://www.carillionplc.com>

Responses to individual questions:

Chapter 3.

Question 1: Do you agree with the propositions set out in this chapter?

Carillion Energy Services agrees that time of use tariffs should help consumers to lower their energy costs provided they can make best use of the technology available. There is a risk that an array of new tariffs becoming available to consumers could result in confusion or disengagement, though this can be avoided if tariffs are underpinned by strong consumer protection legislation and customers have a transparent mechanism to understand and compare tariffs, making switching supplier straightforward.

As smart metering will enable energy suppliers and service providers to more easily profile consumers' consumption patterns, there should be more scope to offer cheaper or subsidised tariffs to vulnerable customers during times of off-peak consumption.

We support development of demand side response as it is mutually beneficial to both consumers and energy distributors; however, it is important to ensure that any tariffs designed to react to demand are backed up by strong consumer protection measures to prevent customers being tied into long-term arrangements with a single supplier due to complex arrangements such as for load-limiting tariffs.

Use of half hourly demand data will also have implications for micro-generation products and services as improved knowledge of demand and capacity can result in more intelligent utilisation of generated off-grid electricity and flexibility in export tariffs based upon levels of demand.

We believe the energy services sector will play a key role in engaging consumers with the roll-out of smart metering and sharing of

consumption data will be vital to energy services providers achieving this role. Organisations such as Carillion Energy Services already have expertise working with communities and businesses to help them save energy through behaviour change and access to a much greater level of data will drive further innovation. Consumers should be afforded the opportunity to harness the wider benefits that detailed consumption profiling arising from smart metering will deliver. Provided consumers have granted consent, data should be shared with third parties in order to deliver tailored energy services and products to homes and businesses. Building on this, Smart Metering implementation should also be utilised as an opportunity to raise customers' awareness of different energy efficiency options, such as those supported by Green Deal.

We agree that consumers should have more payment options as a result of smart metering and the most obvious change should be an end to outdated estimated billing. More frequent consumption information could also enable payment to be made by variable direct debit as customers could pay based upon actual usage. This would avoid instances where customers are vastly under-paying or overpaying as a result of infrequent or estimated billing. More frequent payment intervals could also be introduced if the energy industry works collaboratively with the banking sector to reduce the costs associated with processing weekly or fortnightly payments.

Smart metering could also have a positive impact on prepayment meter customers as having the capacity for smart meters to remotely switch between credit and prepayment remotely will reduce the cost to serve these customers. Combined with time of use tariffs and energy services innovation, the potential to offer more differentiated services to specific customer groups, such as vulnerable customers, or those in arrears, should increase and could help to end the cost disadvantages pre-payment customers currently face.

Question 2: For each proposition, have we identified the elements of current market arrangements that could help or constrain the realisation of benefits for consumers?

There appears to be a degree of conflict between Ofgem's ambitions in the Retail Market Review to simplify the standardised element of standard tariffs, and the desire for a wider array of tariffs to become available through smart-metering implementation. The proposed simplification of the tariffs is expected to "make it easier for consumers to understand their tariffs and select the cheapest standard tariff."¹ Whilst this may specifically be helpful for consumers who are averse to switching there should be greater emphasis on differentiation between tariffs and the market should have sufficient

¹ Ofgem, The Standardised Element of Standard Tariffs under the Retail Market Review, February 2012.

freedom to provide innovative choices. If managed correctly, with targeted customer education and strong consumer protection, innovative tariffs could have a greater impact on consumer engagement than simplifying tariffs alone.

We accept that there is a disparity in regulation of energy services depending on whether services are provided by a licensed party. However, we do not believe that it is necessary for non-licensed parties to be regulated by Ofgem as they are already subject to a strong regulatory framework enforceable by the OFT and they also subscribe to rigorous industry codes of practice.

Question 3: For each proposition, have we identified the key issues, such as the timescales for any changes to market arrangements?

The majority of the expected cost benefits to consumers from smart metering are expected to be achieved through reduced energy consumption.² Consumers will need to become well-informed, empowered, and engaged if these benefits are to be realised and a diverse energy services industry offering widespread choice on tariffs, products and services, will equip consumers with the means to manage their energy use. In this spirit, it is important that regulation does not become overly burdensome but that it aligns standards from commercial practice to the service industry and therefore within OFT jurisdiction.

Question 4: Are there additional opportunities for development in retail energy markets that we should include in the scope of our work?

CES have no additional comments.

Chapter 4:

Question 5: Do you agree with the propositions set out in this chapter?

CES believes that the switching process needs to be greatly improved as currently the process is protracted and burdensome with multiple points at which it can fail – thereby damaging the customer experience and adding cost to the supplier. Access to up to date, accurate consumption data, along with a detailed profile of consumption should give customers more in-depth comparison of tariffs, and more frequent data will mean billing processes associated with switching can be sped up. Tailored provision of data will enable customers to differentiate on factors other than price, such as

² £4.64 billion according to DECC impact assessment, August 2011.

customer service, range of products on offer, and the tools offered to assist whole-house energy management.

Following Government confirmation that suppliers will be required to roll-out smart metering by 2019 but customers will no longer be forced to accept installation,³ it is imperative that consumers are supportive of the roll-out for it to be effective. A strong Smart Energy Code will help to galvanise existing codes and an area of primary concern will be the governance of the use of customer data. It is important that a range of parties have access to consumer consumption data to realise the energy management benefits of smart metering, however, ownership of this data, and the purposes for which it can be used, must be clearly defined and must be subject to review to reflect market and policy developments.

We have no views on settlement arrangements for suppliers and data processing and aggregation services.

Question 6: For each proposition, have we identified the right sources of costs and benefits associated with achieving them?

Carillion has no views.

Question 7: For each proposition, have we identified the key issues, such as the timescales for any changes to market arrangements?

Carillion believe the consultation has identified the key issues in respect of switching supplier and we welcome any synergies that can be achieved with the DCC's functions. We agree that the implementation of the Smart Energy Code needs to be phased to reflect the roll-out of smart metering and that rationalisation of new market entry requirements and consolidation of existing codes should occur at a strategic point during the roll-out to avoid unnecessary burden. The Code of Practice needs to be robust without being prohibitive and it is key that it strikes an appropriate balance between encouraging new entrants and businesses to engage with smart metering and providing a robust framework to protect consumers and set a clear standard for the industry.

Question 8: Are there additional opportunities to reform market processes that we should include in the scope of our work?

Carillion have no additional comments.

³ Consumer Focus press release February 2012,
<http://www.consumerfocus.org.uk/news/government-assurances-on-voluntary-smart-meter-roll-out>

