



Ofgem Consultation - Promoting Smarter Energy Markets

Response from E.ON

General Comments

We welcome this consultation from Ofgem and the commitments expressed within it to help drive positive change and the evolution of the energy industry following the introduction of smart meters. We believe these reforms are essential for the successful development of the retail supply and energy services market which will ultimately benefit the industry's customers.

The introduction of smart metering offers a number of opportunities to deliver improvements to existing industry processes. We have articulated our views on this subject many times and included detailed cost benefit information during DECC's consultations on the implementation of smart meters. We believe that changes to existing industry processes are essential to ensure that the benefits of smart meters are realised and support the reform that is being proposed.

We recognise the eight propositions within the consultation regarding the future potential market development and the opportunities for improving industry processes. The reform needed within the industry can be grouped into 3 key areas:

Settlement Reform

Unlocking the potential for the market to develop is clearly dependent upon reform of the current industry settlement processes. Good work has been undertaken by the industry as part of the Xoserve Project Nexus and via Elexon's PSRG group however progress has been slow and hampered by a lack of holistic oversight and purpose.

We support Ofgem providing this role and co-ordinating change to central settlement systems, network charging methodologies and electricity metering agent roles.

Improving Customer Switching

As part of the introduction of the DCC DECC has provided a commitment that it will play a key part in the future evolution of customer switching. The proposal that it takes on the role of facilitating gas and electricity customer switching is something we support and believe that the proposed timescale of 2016 is achievable.



The complexity of the existing industry processes, developed almost 20 years ago, create cost for suppliers and have inhibited the development of improvements in service that is possible to provide to customers.

Driving the delivery of an improved dual fuel supplier registration service provided by the DCC would be a suitable role for Ofgem and would complement and support the DECC Smart Metering Implementation Programme. This will need strong project management to co-ordinate change across a variety of different industry codes in both gas and electricity and involve a wide number of different stakeholders involved in supplying gas and electricity to both business and domestic customers. A good option for the delivery of this by Ofgem would seem to be via the Significant Code Review process.

Industry Code Rationalisation

Administration of the existing retail industry codes costs us several million pounds each year. We agree with the view that there is duplication across these that would benefit from consolidation. We would therefore support the proposal for the future evolution of the Smart Energy Code to become the predominant retail industry code.

To conclude we believe that the Smarter Markets initiative is an important area of work that Ofgem should be encouraged to lead and deliver. The benefits to consumers will be significant and far reaching. Without the changes being considered within this consultation it is highly unlikely that the Government will be able to realise the benefits it has envisaged from smart metering.

Considering the length of time that these issues will take to implement we would suggest that Ofgem develop a robust roadmap of change with clearly defined annual targets for progress and milestones. This will help ensure that all stakeholders are focused upon delivery and that progress can clearly be monitored.

Answers to consultation questions:

Chapter 3 – Developments in retail energy markets

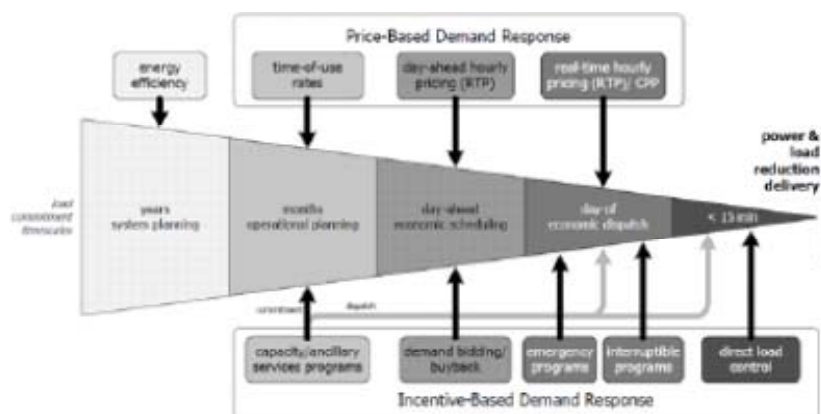
Question: i) Do you agree with the propositions set out in this chapter?, ii) have we identified the elements of current market arrangements that could help or constrain the realisation of benefits for consumers?, iii) have we identified the key issues, such as the timescales for any changes to market arrangements?

Yes we agree with the propositions suggested within the consultation.

Proposition 1: Time of Use tariffs should help many customers lower their energy costs, but improved engagement will be needed to help all consumers make informed choices.

Proposition 2: More efficient use of demand side response can lower overall energy costs, but this will need coordinated changes to regulatory and commercial arrangements.

We would classify the first two identified areas of development as being part of the same issue. The diagram below is useful in showing how different price and incentive mechanisms work together to help power and load reduction.



Source: US Department of Energy, 2006.

Both exist in the market today but key to unlocking their future evolution and enhanced potential from customers with smart metering is changing the existing electricity and gas settlement arrangements.



These provide the commercial signals and drivers that are required by suppliers and distributors to amend their tariffs and products for customers.

We would question the assertion within the consultation that ToU tariffs and DSR would never be applicable in the gas market. The physical requirements of the gas system are different to those of the electricity system. This may present different types opportunities for products to evolve for customers if the underlying market framework allows for it to be appropriately valued.

Amendments to the settlement regimes have started under the auspices of the UNC (Project Nexus) and the BSC (the PSRG workgroup). Ofgem's support for these developments would be welcome particularly with regard to the provision of robust cost benefit analysis.

There are also a number of associated issues that inhibit the growth of ToU tariffs and DSR. It would be useful if Ofgem could undertake a co-ordinating role with regard to ensuring that these are also addressed. Issues identified to date include inappropriate DNO DUoS tariff structures and inefficient electricity meter data agent (DC and DA) processing rules and industry structure.

Facilitation of changes to support settlement reform may best be actioned by Ofgem via a Significant Code Review. Progress on the evolution of gas settlement seems quite advanced under Project Nexus and therefore we would advise that Ofgem concentrates its efforts on the reform of electricity settlement where the task of co-ordination seems greater.

We would caution against assumptions that future ToU products for customers with smart meters would be complex and potentially confusing to customers. For products to be successful customers are going to have to understand their benefits. Premature or inappropriate customer protection regulations within the supply licences may hinder innovation in the market and ultimately stop the potential benefits from being realised.

Proposition: Innovation in energy services would increase the consumer benefits of smart metering and can happen without major change to the regulatory framework

The availability of additional information from smart meters will expand the existing market for energy services products to many more potential customers. This should be seen as a positive development that will increase the opportunities for customers to engage with the energy market.

We agree that changes to the regulatory framework are not necessary at this time and the market should be given a chance to evolve naturally before anything is imposed upon suppliers.



Proposition: Consumers will have more payment options, without changes to regulatory arrangements beyond those envisaged as part of the smart metering roll out

We agree that smart metering will help improve the services that are provided to pre-payment customers. The need for a PPMIP service will disappear and the administration costs incurred by suppliers will be lower.

This innovation in payment methods for customers should not need any reform of the existing regulatory arrangements. We believe the amendments recently made to the Supply Licence in the Spring Package make the customer protection regulation in this area fit for purpose for smart metering.

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

We believe that Ofgem have identified the key areas for regulatory development activity.

Chapter 4 – Market Arrangements

Question: For each proposition, i) Do you agree with the propositions set out in this chapter?, ii) have we identified the right sources of costs and benefits associated with achieving them?, iii) have we identified the key issues, such as the timescales for any changes to market arrangements?

Proposition: Settlement arrangements should use actual daily (gas) and half-hourly (electricity) meter reading data in order to improve their accuracy and efficiency.

Yes we agree that reform of the existing settlement processes is critical to unlocking some of the benefits of smart meters.

Although work has started on examining what is required there would be significant advantages from Ofgem driving the implementation of change. Co-ordination across codes and issues would ensure a more timely delivery of reform and allow the market and customers to benefit sooner.

Proposition: The change of supplier process should be reliable and fast, so that customers can confidently switch supplier on a next day basis.

We agree with this proposal and would like to see Ofgem take a leading role in the implementation of the reform of registration services indicated in DECC's outline of the future role of the DCC.

The issue seems a candidate for a Significant Code Review (SCR) where Ofgem could co-ordinate change across the various codes affected (UNC, IGT UNC, SPAA, MRA, DCUSA, BSC and SEC) as well as



making the relevant amendments to the network business price controls which currently include the funding for these services.

Ofgem are already working on a number of associated activities such as the reform of Xoserve governance and an examination of services provided to gas suppliers by IGT. Ofgem are therefore well placed to link these projects in with a wider piece of work to understand what a dual fuel registration service should provide.

Unlike the reform of settlement, whose benefits are ultimately linked to the numbers of smart meters installed, registration reform is principally driven by IT system replacement. DECC has suggested that the DCC should be ready to undertake registration activity for the industry by 2016/17. This seems a reasonable timescale and one that we believe that Ofgem should work towards delivering.

Proposition: Electricity data processing and aggregation services should be procured centrally in order to reduce costs and support fast customer switching.

We agree with this proposal, and highlighted in the first phase of the Smart Metering Implementation Programme, the significant cost savings and service improvements that this could provide.

The need for reform becomes particularly relevant when electricity settlement starts to be based predominantly upon actual half hourly consumption when existing DC/DA systems will need to be replaced or upgraded.

For this reason we would link the future of electricity data processing and aggregation with the reform of electricity settlement. The cost/benefit analysis could be significantly altered if a central provider could provide cost effective services to all suppliers (and potentially DNO and DSR aggregators) rather than a multitude of different service providers.

We therefore would recommend that this proposal is taken forward as part of the proposed reforms to the electricity settlement regime. Analysis of the reforms needed could be undertaken by Ofgem using the resources of Elexon who would seem well placed to assist.

Proposition: The Smart Energy Code should be used as a vehicle to consolidate existing industry codes dealing with retail issues in gas and electricity to facilitate market development and reduce administrative burden.



We agree that it would be desirable to consolidate some of the existing industry codes. This would save on some duplicated code administration overhead costs and reduce the costs and time for assessment and implementation of future change.

The new dual fuel Smart Energy Code would seem a logical code to use as the basis of this consolidation. When and how change should be implemented warrants further investigation with certain future milestones, such as the centralisation of registration processes, appearing logical trigger points.

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

We believe that Ofgem have identified the key opportunities to reform market processes.