

Response to Ofgem's "Promoting smarter energy markets" consultation

Version 1, 7 March 2012

Overview

The Ofgem consultation introduces eight propositions relating to improvements to the market which are grouped into two key areas:

- 1) Products and services to consumers
- 2) Rationalisation of the market

We welcome the propositions and the opportunity to respond to their relative merits. The ERA and its members have reviewed the propositions in the promoting smarter energy markets consultation and agree the areas covered are all worthy of further work.

We would also like to highlight the need for maintaining a cross-industry future vision (a common vision shared by industry, DECC and Ofgem) along with a road map of changes required to deliver that vision, so that the industry can align to, and prepare for a path of implementation over the coming years. There is value in firming up timescales for changes as soon as is possible as this reduces costs and increases quality of preparation and implementation.

Prioritised Propositions

Of the eight propositions, we have prioritised "the top four" where we see Ofgem providing the overall leadership role, driving industry discussions with all relevant stakeholders according to the roadmap timescales. In addition, we identify one proposition we feel falls in to DECC's remit in line with setting wider, cross-cutting energy policies.

We have elaborated on one example area to illustrate how a proposition might be broken into smaller areas of focus with their own deliverable elements.

Although we approve all of the topic areas as warranting attention, it is not appropriate to detail or constrain what the exact solutions might be—different parties will have different expectations and expectations will change over time. It is also worth noting that the ERA's individual members may introduce additional considerations in their own responses to this consultation.

Four areas for Ofgem leadership

The four areas we have prioritised where Ofgem should provide leadership are as follows:

1: Change of Supplier processes (proposition 6).

We believe that the change of supplier process needs significant attention and this should be a key priority for the Smarter Markets team.

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The ERA's members believe that there is a need for a fresh approach, starting from the consumer's point of view. Rather than continue to build on the current industry processes and current constraints, we should consider the consumer journey first, what should it look like? Then break the considerations into functional blocks to allow development of more detail. Only then can we work back to see how this can be delivered through the industry processes, how the solution can be "plumbed in", adopting existing processes where appropriate but not being constrained by them.

We should expect the eventual process for the consumer to be: simple and reliable, faster than currently, with the processes aligned between gas and electricity including the same opening read handed to both suppliers - but we would not pre-empt the outcome by assuming the end result must be next day switching.

Of course, any significant change to the Change of Supplier process will impact other aspects of the energy supply chain, and it will be important for Ofgem to identify and engage with all relevant stakeholders likely to be affected. Similarly, it will be equally important for industry participants to consider all of the likely impacts within their own organisations, and as such, they will need to be fully committed to this work, providing resource and expertise to identify every perceivable issue or impact, and then identify and develop workable solutions for industry to deliver.

We have used this proposition as an example to show how a topic can be broken down into smaller focussed areas and how we can target deliverables to these strands to point at where these strands should align to key dates / points of the smart metering roadmap.

It is also worth noting that whilst the ERA believes that the Change of Supplier process should be a top priority, there will inevitably be impacts on other propositions identified within this consultation, therefore cross-cutting impacts will need to be managed carefully, and there will be a need for workstreams to work closely together in some areas. We believe this will be particularly relevant in the areas of Code Consolidation, and Settlements.

2: Time of Use tariffs (proposition 1)

This is seen as a key area where there needs to be development to support suppliers' products and to encourage and promote innovation. As the products become more complex there is need for greater change to allow industry settlement to support them. Static Time of Use tariffs are more complex than the current Economy 7 type tariffs, and there will need to be some change to allow Time of Use tariffs to be supported in a timely manner. Dynamic Time of Use tariffs would lead towards needing half-hourly settlement for them to be supported in the market.

Should the proposed changes of the current Retail Market Review be effected, then there would be a direct conflict between the constraints of offering only simple tariffs on an evergreen basis, and the desire to offer innovative products. The ERA believes that the current proposals under the Retail

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Version 1, 7 March 2012

Market Review are too prescriptive and as a result, the number of consumers willing to take up a Time of Use tariff for only a fixed period of time could be significantly lower than if they were able to do so on an evergreen basis. This will also have a detrimental effect on the benefits detailed in Government's smart metering Impact Assessment.

We understand the reasoning behind the Retail Market Review proposals, but this is an example that shows the need for a strategy, that over time will allow products to be offered on an equal footing to "simpler tariffs".

These propositions would be underpinned by the next two priority areas:

3: Code consolidation (proposition 8)

The introduction of the Smart Energy Code (the SEC) is an opportunity to consolidate codes. It is an opportunity to develop a code that serves the customer retail experience. The SEC should become a consolidated dual fuel retail and metering code. There are some obvious benefits in bringing codes together, not least of which is that there is a desire to align the current gas and electricity processes to deliver an aligned consumer experience. The consolidation of codes can help implementation of changes to support other propositions.

4: Settlement Arrangements (proposition 5)

Amendments to the Change of Supplier process may result in the requirement to make changes to settlement arrangements, but one area where it is clear changes will be needed is to support dynamic Time of Use tariffs. Both of these instances could mean tactical changes to allow settlement to support Time of Use tariffs as they develop, along with a more strategic view of the long term aim for the industry overall, both subject to robust cost benefit analysis.

Proposition to be led by DECC

Demand Side Response

Demand-side-response is expected to play a growing role in the electricity industry of the future. It is worth noting that in the DECC 2050 pathways analysis, demand response makes a significant contribution to all successful pathways – in many scenarios demand response makes "extremely ambitious changes that push towards the physical or technical limits of what can be achieved". It is a significant challenge to realise these ambitious changes. As this area is so wide reaching and with so much involvement or reliance of Government policy on energy – particularly its Electricity Market Reform proposals, it is seen as appropriate for this work to be led by DECC. The ERA has done some exploratory work on Smart Demand Response with the ENA, Good Energy and Ecotricity which should initiate discussion.

Response to Ofgem's "Promoting smarter energy markets" consultation

Version 1, 7 March 2012

The remaining propositions

When considering the ERA response to this consultation, there are a number of propositions that do not necessarily need an Ofgem lead at this stage, as well as some additional propositions that may be put forward by individual suppliers. In terms of an ERA consensus position, these are regarded as not being in the top priority collectively, or not the most urgent. They are however recognised as important, and are likely to include aspects that are unlikely to be managed by the market alone and will warrant some early focus from Ofgem.

For example:

Payment methods - In addressing payment methods – there is a need for a strategy in managing the closure of existing prepayment arrangements in a coherent way and to ensure that the costs of the declining systems are handled appropriately. Ofgem have already played a significant role in managing the phasing out of prepayment token meters, and the ERA believes there are many similarities that can be taken forward in terms of managing the transition to prepayment arrangements for smart metering.

Energy services - The ERA's members agree that there is scope for energy services to develop through the market. Although there may be a need to ensure that this market is coherent and takes place on a level playing field, for example competitive advantages aren't gained by bundling services or by piggy backing on data paid for by others (e.g. all parties that use DCC services should be signatories to the SEC).

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Change of Supplier – Key Activities and Timeline for Delivery

The following table is provided to illustrate how a proposition may be parcelled up into smaller workstreams. The workstreams are not independent of each other but can provide an area of focus with tangible deliverables. Each workstream presents "functional blocks" and has an estimate of when it should be targeting delivery (including actual change to the industry processes).

The targets are expressed as dates but actually align with programme deliveries:

2014 – DCC live

2016 – DCC including registration

2020 – Smart Metering rollout complete

Customer Journey

The customer experience is overarching, relevant to and guiding all other development.

Activities – CoS	2014	2016	2020
Dual Fuel Alignment		✓	
Switching Timescale Costs and benefits of reducing time to switch – 3 weeks, 1 week etc	✓	✓	✓
Physical Changes changes to devices and configuration of devices	✓		
Metering Activity (e.g. coherent handling of same opening / closing read to old and new suppliers)	✓		
Consumer Protection (a fundamental aspect of the customer journey throughout).	✓	✓	✓
DNO arrangements Including Priority services Register		✓	
Demand Forecasting (Demand forecast integrity across suppliers, distribution and grid).	✓	✓	✓
Tariff type Strategy for innovative products to compete on equal footing.	Fixed Term and Evergreen		No tariff restrictions
SME Exceptions (non DCC) Coherent processes across industry	✓		
Collective Purchasing (by groups of consumers)		✓	