

March 7th, 2012

Harpal Bansal  
Smarter Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Mr. Bansal,

## **Promoting Smarter Energy Markets**

Please find First Utility's response to the above consultation below.

It is First Utility's view that the introduction of smart meters in the UK will radically change both the energy market and the behaviours of all parties involved in it from the customer to the supplier to the generator.

Therefore, First Utility applauds the work that has been carried out to date by Ofgem in realising the potential of smart meters and taking the initiative to start talks on utilising the functionality of these meters prior to the mass roll out.

While we are supportive of the propositions set out within this consultation, we have some concerns as regards the cost of implementing them. We agree that some costs are unavoidable if we are to realistically promote a smarter market, however, we are conscious of the disproportionate costs that may be imposed on smaller suppliers when compared to the larger incumbents especially if these propositions are running simultaneously and we request that this is addressed in more detail in future consultation.

## **Chapter 3: Enabling Retail Market Development**

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

These seem appropriately aimed at utilising the functionality of smart meters to the benefit of both the supplier and the consumer by offering a better choice of tariffs and creating incentives for customers to proactively manage their energy consumption and spend related to this.

First Utility is particularly keen to offer time of use tariffs to our customers, however, the current settlement regimes in both gas and electricity do not incentivise us to do this as domestic electricity and gas customers are currently settled against a profile rather than actual usage. We urge Ofgem to take steps to correct this situation as quickly as possible as without these changes the roll out of time of use tariffs is likely to be significantly delayed. The same is likely to hold true for demand side response offerings which will then have a knock on effect on load shifting.

We also disagree with Ofgem's statement contained in paragraph 3.15 that time of use tariffs are not deterred by its RMR proposals. As time of use tariffs would be considered "non standard" they would necessarily be of a fixed price and / or duration which causes an issue for smaller suppliers

due to the fact that larger incumbent suppliers will likely offer longer fixed periods that smaller players would be unable to match due to the considerable difference in size between these businesses. This is likely to have the unintended outcome of skewing the market towards larger suppliers offering these products and further increase the degree to which the playing field is tilted in their favour.

**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?*

Yes. However, we agree with Ofgem that bundling of energy services could provide incumbent suppliers with a significant competitive advantage over smaller suppliers and new entrants and would request that Ofgem consider the potential impacts of this on the market.

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

Further to the specific points detailed above, we are concerned that the cost to implement the changes required to facilitate any of these propositions will necessitate a disproportionate amount of resource for smaller suppliers when compared to the larger incumbents and as such, these costs should be discussed prior to any decisions being made on their roll out.

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

First Utility has no further suggestions at this time.

## Chapter 4: Improving Market Processes

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

We agree that these propositions should be explored as they are in line with utilising the functionality of smart meters and shaping beneficial new industry procedures. The consolidation of some of the already existing codes along with new additional cross-fuel codes to create the Smart Energy Code (SEC) seems appropriate, however, it is difficult to comment on this until more information becomes available. To reiterate the point made in our answer to Question 1, we believe that the delivery of Proposition 5 (Settlement Arrangements) is of paramount importance in ensuring that the full benefits of smart metering are widely delivered.

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

Although the benefits have been identified, we do not believe that the costs have been fully addressed. The propositions appear to rely heavily on procedures carried out by the DCC, however, without a firm decision on what these will be and whether or not these will be core services suppliers do not as yet have a clear view as to the associated costs.

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



Yes, these seem appropriate.

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

First Utility has no further suggestions at this time.

Please do not hesitate to contact me should you have any questions or require any further information.

Best regards,

Jamie Linton

Regulation & Compliance Analyst

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