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Dear Andrew,

Promoting Smarter Energy Markets Consultation

Due: 7th March 2012

Gazprom Marketing & Trading Retail (GMT&R) trading as Gazprom Energy (GE) would like to thank you for the opportunity to respond to your consultation on Non-domestic Proposals. We are happy for our comments to be shared with relevant interested parties

Gazprom Energy operates in the UK Non Domestic market as a Gas Supplier and a Gas Shipper and in the Power market as a Supplier. We also have a separate Energy Services Business Gazprom Global Energy Services which is at the forefront of the development of Advanced Metering solutions and Energy Service Products.

Gazprom Energy has and will continue to actively participate in the development of Advanced and Smart Metering, hereafter jointly referred to as Smart, and sit on many of the key industry forums including the recently formed Smart Working Issues Group (SWIG).

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It is an acknowledged fact that the installation of “Smart” equipment does not in and of itself deliver any direct savings to the consumer. Such savings only arise from the consumer actively engaging with and utilizing the information in a smart way e.g. understanding their usage patterns and pricing opportunities and changing their behavior. It is important to understand that access to such granularity when linked with pricing information could lead to unintended consequences such as consumers using more energy i.e. running more equipment during cheaper time periods e.g. a consumer may choose to do two washes out of hours instead of one as the cost is the same

Thus we believe it is the competitive availability of innovative Energy Service Products which will be critical to the success of any program. This can only be achieved if the consumer’s access to these goods and services are open and competitive.

Therefore it is critical that the provision of Energy Services should be open and competitive to ensure both Innovation and Consumer choice. In the Non Domestic Sector the development of a open and competitive Energy Services Market has led to Consumers being able to obtain bespoke products and services which best meet their requirements. We believe such arrangements have led to Consumers achieving significant savings.

And in this light we welcome the recent developments to ensure non domestic consumers can access the best smart product for their needs across their whole business.

We are also concerned that in attempting to streamline the existing market arrangements Ofgem needs to ensure that they do not introduce further barriers to entry to both existing small Suppliers and new market entrants.

It remains a fact that, other than in the Non Domestic Market, the Big 6 continues to dominate the Domestic Gas and Power markets. Many of the Big 6 are also entering or looking to enter the Smart Asset Management market. While their participation in asset management may bring benefits it could also become a potential barrier to entry if these parties who already dominate supply also come to dominate smart metering provision without appropriate checks and balances.

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In terms of ensuring the existing industry arrangements are fit for purpose to support the new smart world Gazprom have been active in developing Project Nexus and we believe the Product Set (see below), including rolling AQ calculation, complements the granularity being delivered by both Advanced and Smart Metering.

Process – Description	Day Ahead Gas Nomination	Process for initial Allocation	Process for Energy Balancing close-out	Read Submission Timescales	Type of Read Submission
1 – Daily Metered Time Critical Readings	Shipper nominates (singly or in aggregations)	Uses daily read	Uses daily read	By 10am on GFD+1	All reads – daily on GFD+1
2 - Daily Metered not Time Critical Readings	Shipper nominates (in aggregations)	Transporter estimate	Uses daily read	By end of GFD+1 (05.59 am)	All reads – daily by end of GFD+1
3 – Batched Daily Readings	Shipper nominates (in aggregations)	Transporter estimate	Transporter estimate	Daily Reads in batches	All reads – in batches – to an agreed frequency
4 – Periodic Readings	Shipper nominates (in aggregations)	Transporter estimate	Transporter estimate	Periodic	Periodic reads – to an agreed frequency

The product set in Nexus supports Advanced and Smart technologies as well as supporting legacy “dumb” assets. We are concerned that the implementation of this project needs to be timely to maximize the benefits of smart to the market as a whole. Therefore the current indicative timeline for implementation in 2017 is not good enough and we would welcome Ofgem’s views on the proposed implementation timelines.



Finally we believe it is important, in developing future strategies, to recognise the fundamental differences between Market Segments (Domestic and Non Domestic) and commodities (Gas and Electricity) and to ensure any developments are appropriately focused and fit for purpose for a particular market. A “one size fits all” approach is not appropriate if consumers and the market are to get the best solutions.

In undertaking any analysis of proposals we would hope Ofgem would also consider the impact on competition in the broader market to ensure we avoid any unintended consequences which could affect the competitive market.

Our specific responses to your questions are set out in the attached appendix. I this information meets your requirements however if you have any queries please do not hesitate to contact me directly.

Yours Sincerely

Steve Mulinganie
Regulation & Compliance Manager



Appendix 1 – Gazprom Energy response to Questions set out in the Consultation document

<p>Question 1: Do you agree with the propositions set out in this chapter?</p>
<p>We agree with the view set out that the opportunities to develop time-of-use tariffs and demand-side response is greater in Electricity</p> <p>As we have previously noted we should avoid a one size fits all approach as certain initiatives only have value in a particular market</p> <p>In terms of time of use tariffs we do not see these as relevant in the Gas Market as the commodity is not Generated and is generally used in the Domestic market for heating and hot water.</p> <p>In terms of DSR the potential could exist in Gas to Aggregate Smart volume across a portfolio however the cost / benefit would need further investigation</p>
<p>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?</p>
<p>We would note that the simplification of tariffs set out in the RMR works against the provision of more complex arrangements as enabled by data granularity arising from Smart metering.</p> <p>The fair and open access to information utilizing existing the existing WAN and HAN capabilities of the Smart meter is key to the development of an innovative Energy Services Market. We agree with Ofgem that access to the in situ infrastructure will allow innovative Energy Services products, already available to larger consumers, to be provided to smaller Non Domestic and Domestic consumers alike.</p>
<p>Question 3: For each proposition, have we identified the key issues, such as the timescales for any changes to market arrangements?</p>



<p>We believe it is important to evaluate the propositions both individually and also holistically to understand the potential cost and benefit of each proposition</p>
<p>Question 4: Are there additional opportunities for development in retail energy markets that we should include in the scope of our work?</p> <p>We believe it is important to ensure that Energy Service Providers are able to access data easily to enable innovation and ensure competition in the provision of goods and services.</p>
<p>Question 5: Do you agree with the propositions set out in this chapter?</p>
<p>We would highlight the industry's work on Project Nexus which provides a blueprint for changes to support and utilise the Data Granularity provided by Smart equipment. The Product set developed through Nexus provides a route map which leads to Daily provision of Meter Reads while also supporting existing legacy physically read meters. Nexus also supports the recalculation of AQ on a monthly basis (rolling AQ).</p> <p>As previously noted we believe it is important to recognise the fundamental differences between Gas and Electricity when considering future developments.</p>
<p>Question 6: For each proposition, have we identified the right sources of costs and benefits associated with achieving them?</p>
<p>See below</p>
<p>Question 7: For each proposition, have we identified the key issues, such as the timescales for any changes to market arrangements?</p>
<p>See below</p>
<p>Question 8: Are there additional opportunities to reform market processes that we should include in the scope of our work?</p>



Gazprom believe it is important to recognise the fundamental difference between consumers who have never switched Supplier “sticky” consumers and those who actively engage in the market.

While the Big 6 dominate the domestic market and have a large incumbent sticky customer base the non domestic sector is far more liquid and consumers who move Supplier once tend to be active participants in the market i.e. they will move again if they wish.

Any intervention in the market needs to ensure that existing market participants are not adversely affected by actions meant to enable liquidity for those consumers who have never engaged with the market.

Based on the existing proposals to Delta the industry data bases to provide the DCC with a daily list of Registered Suppliers to ensure appropriate routing we do not see the benefit of extending the DCC’s scope into Registration. Extending the Scope of DCC’s activities during roll out places additional risk on the program with little benefit arising from DCC taking control of the process. During this time the market will be transitioning from dumb to smart and it is likely that 3 years into the program a large portfolio of legacy assets will remain which will continue to require traditional reading services.

Decisions on the extension of the DCC’s scope should come after the successful implementation of the roll out program and adding to the scope of the program will lead to distraction from DCC’s central purpose.

We would also note the proposed changes to existing industry systems to support the EU Third Packages requirements to facilitate transfer in 21 days

From a personal perspective I note in 4.35 your references to the ability to switch services providers in Banking and Mobile phones – however from personal experience I have found neither of these examples to be fast nor reliable.

The ability to achieve “next day switching” as set out in 4.41 needs to be considered in the context of the risk it would impose on a Supplier in terms of its energy purchases to support that contract.



While the larger Dominant Market participants can manage such risks through its portfolio size (blending the risk in a large portfolio of loss and gains) smaller market participants would either have to self insure thus carrying the risk that short notice change could generate a significant financial exposure or price in the risk which would make them uncompetitive against the incumbent. This is an example of an unintended consequence which could reduce liquidity and competitiveness in the market.

In terms of Code Consolidation we would highlight that the SPAA process in Gas is only utilized by the Domestic Market as the existing Governance arrangements are not fit for purpose for the Non Domestic Sector. The reality is that the SPAA is another example of a process dominated by the Big 6.

Any consolidation of Codes would need to ensure that all Market Participants are fairly represented and are not marginalized which could have the unintended consequence of reducing competition.