

Harpal Bansal
Smarter Markets
Ofgem
9 Milbank
London
SW1P 3GE

7th March 2012

Dear Harpal,

Promoting Smarter Energy Markets

Thank you for your invitation to respond to the above consultation. As you are aware, Good Energy is a small, licensed electricity supplier of 100% renewable electricity to over 28,000 customers; sourced from a community of around 12,000 small and decentralised generators across the UK. We also supply gas to over 5,000 customers on a tariff which supports the development of renewable heat.

Executive Summary

The introduction of smart meters is a first step on the road to smarter energy usage, not the completion. A smarter energy market requires an increase in complexity of operation, which should be combined with making the market easier to understand and engage with by the customer.

Key to this is to allow innovation to deliver new products to users in the format they want it. Currently regulation, and in particular the current RMR proposals are stifling this innovation through a blunt programme of simplification in the name of consumer protection.

If the UK is to truly deliver a smarter energy market, then suppliers, networks and consumers need to explore the opportunities that smartness deliver. A market where suppliers are only allowed to deliver “tried and tested” products will see inefficiencies and lost opportunities to the detriment of all energy customers and the economy as a whole.

We therefore strongly urge Ofgem to hold back its instinctive desire to regulate and to act only where it sees actions which are significantly detrimental to vulnerable consumers, or which inhibit competition in services.

For your convenience we have answered your questions below, expanding our response where necessary.

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

Yes. The propositions seem reasonable.

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

Proposition 1:

Our key concern here is related to the proposed RMR restrictions on evergreen tariffs. Once smart meters allow suppliers to experiment with ToU tariffs without physical meter changes, then, due to their experimental nature both customers and suppliers may be reluctant to lock into fixed term tariffs for these experiments and prefer an evergreen approach in which either party can withdraw or change their terms if the tariff doesn't deliver benefits.

With regard to tariff complexity, we believe that transparencies of terms are the key. The visible presence of an IHD showing not just current rate, but easy access to the ToU plan is an essential component of this. Once consumers are familiar with their tariff structure, then it should not be a problem. Customers who decide to switch tariffs/suppliers should be able to use their half-hourly data to assess their best option.

An element not covered is the non-discrimination clause. If the full benefits of smart are to be realised for customers, then customers who currently adopt their lifestyle to a tariff, should be able to have tariffs designed to suit them. This cannot happen with non-discrimination clause in place.

Proposition 2:

We agree with the elements raised. However, there is still an uncertainty over the regulations around demand side management and the related issue of dynamic tariffs. Current domestic licence conditions aimed at protecting customers as currently drafted will prevent take up of these issues. There is a clear need for commercially capable consumers to opt out of such arrangements, whilst maintaining protection for others.

Proposition 3:

One of the advantages of smart metering is the potential ability to offer energy services linked to tariff structure. The regulatory requirement to keep customers informed of prices has the potential to be a hindrance as they are based on the principle of set prices in a p/kWh. This does not sit well with dynamic tariffs, or energy services where a supplier could offer a fixed price for running non-time dependent devices. Clarity would be needed as to whether these services were outside regulation.

Current market arrangements also need to be considered in light of the potential for 3rd parties to adjust customer's energy usage and the impact on the balancing requirements of suppliers and the constraints on networks.

Proposition 4:

We agree with the proposition and the current market constraints.

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

Proposition 1:

We disagree with the view that the retail market review proposals are unlikely to deter time of use tariffs. Smart meters will allow suppliers and customers to try new tariff options, but neither party is likely to be keen on fixed term tariffs in case they prove to be inappropriate. We believe innovative tariffs require the flexibility of evergreen status, so that customers can opt out of tariffs which they feel do not work for them, and suppliers can adjust tariffs if unforeseen consequences occur. Without the evergreen option supplier and customers are likely to be far more cautious.

Encouraging engagement from customers in the energy market has great potential in the smart environment, but this can only be done by offering innovative and imaginative tariffs. Regulations must allow a level of "caveat emptor" to those consumers willing to engage, whilst protecting those who cannot (but not necessarily those who choose not to).

Proposition 2:

Most of the key issues are addressed. However, small scale demand side is likely to be controlled by automation, not by customers taking conscious decisions to turn off appliances. This control may also be part of a service operated by a third party selling aggregated demand side reduction directly to market. The traditional supplier/customer relationship may change, and with it the ability of the regulator to protect consumers through licensed activities.

Proposition 3:

One of our concerns is that engaged consumers do not have options and choices curtailed because of regulations designed to protect the vulnerable. It is quite likely that energy services could deliver benefits to all consumers, but those designed for vulnerable customers could be different.

Proposition 4:

Whilst we believe the key issues raised are relevant, consideration should be widened beyond traditional PPM to consider issues around “pay as you go” and other options for debt management. For example, it may be possible to develop a smart service where heating is protected from de-energisation, but other energy usages are curtailed. Options around daily limits are also a consideration. In our view Smart meters should not be seen as principally as enabling a supplier’s ability to de-energise remotely, but to manage energy usages, rather than the on or off approach currently used.

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

At the moment the regulatory landscape is focussed on consumers as demand takers only. As smart develops alongside a growing interest in onsite renewable generation, then this should be taken into account. This is particularly pertinent to demand side which may not be just demand reduction, but increasing export. However it does cover a wider regulatory brief than smart energy alone.

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

Yes, but these issues cannot be considered in isolation from other market developments beyond smart. For example changing the settlement arrangements must be considered along side cash out and the Government’s EMR proposals. We also believe that one of the success criteria should be lowering the barriers to entry and subsequent growth of new players in the market.

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

Proposition 5:

A number of benefits attributed to a switch to half-hourly settlements can be achieved through regular monthly reads (e.g. shortening the reconciliation process). If most energy customers remained on single rate tariffs, then it questions whether HH arrangements can be justified.

The statement that HH settlements could be beneficial to smaller suppliers is debateable. Currently under existing arrangements, suppliers to NHH customers are exposed to volume risk, but not shape. A supplier of a smaller number of customers could therefore be more exposed to the variable usage by each customer. Whereas larger customers wider spread would smooth out these fluctuations.

Proposition 6:

The fundamental problem with the switching process is that the inability to unpick a switch easily means that checks and controls delay the process. With smart metering, and data storage on the meter it should be possible not only to unpick registration quicker, but allow switching retrospectively. This could be useful in allowing consumers to switch on change of tenancy retrospectively once they know the property transaction is complete. This proposition should be more ambitious.

Proposition 7:

We agree with the cost and benefits identified.

Proposition 8:

We agree with the cost and benefits identified, but believe an additional cost benefit from a reduction in the number of code administrators and their respective overheads. However, we do not believe this to be a “smart” issue and could be achieved without the smart arrangements.

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

Proposition 5:

The proposition does not state who would benefit from the improved accuracy and efficiency, but any such improvement should deliver to customers, as improving accuracy and efficiency should not be an end in itself.

We are fully supportive of the principle of driving down the costs of elective half-hourly so that it is an option for customers who wish to take up more complex tariffs. However, whether the cost saving can be realised where customers remain on a single rate tariff is questionable and it maybe that enough benefit is realised by accurate monthly readings without recourse to half-hourly.

If there is a significant move to half hourly, then a more wide ranging review of settlement with a view to simplification should be considered.

Proposition 6:

As stated above, the main issue with the existing process is the complexity of unwinding a change of supplier. With the access to data on the meter, then this should be easier. If the new process begins with the premise that some transfers will need to be unwound then the process should be quicker.

We believe that enabling retrospective transfers could have benefits in several areas, but care needs to be taken as to when and where they take place so that suppliers can match their purchases and sales. One possibility is to prescribe the precise circumstances where retrospective transfers (and transfers being cancelled) can take place.

Proposition 7:

The current DCC proposal is that readings will be sent to suppliers who then have to send the data on to processors and aggregators, who will return the data to suppliers to pass on the central systems. This to us

seems an inefficiency in the process that could be easily addressed, and should be available from the commencement of smart metering on an optional basis.

Proposition 8:

The key issues seem appropriate, but as stated before, we do not believe smartness is required to start this process.

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

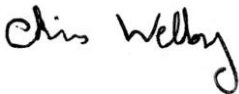
If there is to be a significant shift from NHH to HH settlements, then the process of cost allocation should be considered. This includes the application of group correction factor.

The role of demand side and of “significant” embedded generation should also be considered. In particular the regulations around demand side which is controlled by third parties need to be considered so that vulnerable customers have protection, without inhibiting those who wish to benefit.

The increase in reads that will come with smart reading should require a review of the EAC/AA calculations and processes. This is particularly important if a decision not to mandate HH settlement for all.

If you would like to discuss these matters further, please contact me.

Kind regards,

A handwritten signature in black ink that reads "Chris Welby". The signature is written in a cursive, slightly slanted style.

Chris Welby
Policy & Regulatory Affairs Director