

HarpalBansal  
Smarter Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

[smartermarkets@ofgem.gov.uk](mailto:smartermarkets@ofgem.gov.uk)

Reference Number: 174/11  
Date: 6<sup>th</sup> March 2012

## **Promoting Smarter Energy Markets Consultation**

Harpal,

### **Introduction**

SmartestEnergy welcomes the opportunity to respond to Ofgem's Promoting Smarter Energy Markets Consultation.

SmartestEnergy has a non-domestic electricity licence and is currently a supplier in the half hourly electricity market. (We also have a gas shipper and supply licence, but our activity in the gas market is minimal). It is likely that over the coming years we will expand our target market into the current non-half hourly market which will almost certainly entail gaining customers who already have smart meters.

### **General views on the approach**

We are of the view that Smart meters alone will not deliver great benefits. It is the suppliers' tariffs, DNO involvement and energy management systems which will deliver/incentivise the changes in behaviour and reductions in electricity consumption/carbon emissions.

We note that Ofgem are consulting on the scope of a strategy to shape market development from the platform of smart metering. In general we agree that changes to current market arrangements will be required to enable market development to happen in a way that benefits all consumers and protects their interests during the roll-out and beyond. However, we are of the view that it is not just a matter of opportunities for innovation in retail energy markets but also, and more importantly (as this is where the real changes to the market arrangements are necessary), of

ensuring that the appropriate arrangements are in place for linking together smartmeters, energy management systems and distribution grid requirements. This will involve, for example, ensuring that suppliers are compensated whenever distributors wish to control load.

Ofgem's approach does acknowledge that "While the focus of this consultation is predominantly on the potential for retail market development, we will need to consider arrangements for wholesale markets and network regulation." However, we believe that the arrangements for wholesale markets and network regulation are significantly more important and retail market development is related but secondary in importance.

The document also states that Ofgem's strategy "will provide for a comprehensive, coherent and coordinated approach to the design and delivery of appropriate reforms to market rules, systems and processes. Market participants will have an important role to play in delivering any reforms through changes to industry codes and, in due course, by innovating in the products and services they offer." This is true but more emphasis is required on incentivising customers to use energy management systems. Admittedly, this is more of an area of policy rather than regulation.

### **Ofgem's specific questions**

For your convenience we answer Ofgem's specific questions below in the order in which they are presented in the consultation document.

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

We agree with *Proposition 1*, viz that time-of-use tariffs should help many consumers lower their energy costs, but improved engagement will be needed to help all consumers make informed choices. However, we are not sure that this "improved engagement" is best delivered through regulatory interference.

We agree with *Proposition 2* viz that more efficient use of demand-side response can lower overall energy costs, but this will need co-ordinated changes to regulatory and commercial arrangements.

We agree in part with *Proposition 3*. It is true that innovation in energy services would increase the consumer benefits of smart metering but we do not agree that this can happen without major change to the regulatory framework. We feel that the same co-ordinated changes to regulatory and commercial arrangements as described under proposition 2 will be required.

As regards *Proposition 4* we are not convinced that consumers will have more payment options without further changes to the regulatory arrangements but we are also of the view that this is not a top feature of smart meters that needs to be facilitated.

**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?

Since the recent public clarification from Charles Hendry that Smart Meters will not be obligatory revised estimates of take-up may be required if Ofgem are to continue to assess all developments on a cost/benefit basis; it may well be the case that there are not sufficient numbers to justify the infrastructure costs of the DCC.

With regards to *Proposition 2*, smart meters need to link intelligently with energy management systems. This will probably require some standardisation of specs but also incentivisation (although this is the sort of thing that needs to be encouraged through Green Deal style support)

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

On the subject of *Proposition 1* the document states: "We consider that our Retail Market Review proposals are unlikely to deter suppliers from offering time-of-use tariffs. Suppliers would still be able to offer non-standard tariffs of fixed duration with prices that vary by time-of-use. The challenge for suppliers will be to design straightforward tariffs that consumers can understand. "

We believe that further consideration needs to be given to the conflicting aims of complex tariffs and easy-to-understand bills. This is not just an issue for suppliers. Price comparison of different tariffs is already confusing for customers and the current RMR proposals are trying to address this through standardisation of certain elements. It would be consistent with this approach (not that we necessarily agree with it) to consider standardisation of more complex tariffs.

We agree with the statements in the document on *Proposition 2* that "Current commercial and regulatory arrangements may not facilitate the efficient allocation of demand-side response in future;" that "different parties are interested in using different types of demand-side response;" and that "one party's use of demand-side response can have knock-on impacts for other parties throughout the system. "

Arrangements are clearly needed to include suppliers, distributors and aggregators to cater for both commercial and operational requirements. We believe there to be a lack of understanding amongst distributors that operational requirements have commercial implications for suppliers. An emergency event could be brought about due to a lack of investment on the network and distributors need to be in the same position as NGT i.e. incentivised to assess the economic trade-off between investment and

compensation payment. There is a clear need for industry agreements to provide compensation to suppliers when DNOs want to take control for operational reasons.

As far as *Proposition 3* is concerned we are of the view that Ofgem have highlighted the most significant issue, namely that a proper market in energy services cannot be established if bundling of energy and efficiency is allowed to take place. It is vital that these cannot be offered in the same package to customers.

On *Proposition 4* Ofgem are right to highlight the fact that spreading costs over pre-payment meters will, in the absence of other measures/methods of smearing, lead to prepayment tariffs becoming increasingly expensive for those who remain on traditional pre-payment. However, there is a much more fundamental issue which comes into play with the recent announcement from Charles Hendry that Smart Meters will not be obligatory. Revised estimates of take-up will be required and it may well be the case that there are not sufficient numbers to justify the infrastructure costs of the DCC.

We were originally concerned at the possibility that there could be differential pricing for customers on traditional meters. In the light of an opt-out for customers consideration needs to be given as to whether suppliers can use differential pricing for customers on Smart meters which may not have a massive take-up but the infrastructure required to support them will need to be spread across customers somehow.

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

None that we have identified.

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

We agree absolutely with *Proposition 5* viz that settlement arrangements should use actual daily (gas) and half-hourly (electricity) meter reading data in order to improve their accuracy and efficiency.

We do not necessarily agree with *Proposition 6*: "The change of supplier process should be reliable and fast, so that customers can confidently switch supplier on a next day basis." This may be appropriate for domestic customers on evergreen contracts but for business customers on fixed term contracts it would not be appropriate to facilitate fast switching since it needs to be established that the customer is not still in a fixed term contract.

The document states the following: "It has typically taken four to six weeks to switch supplier....Reliable and fast switching can deliver benefits for non-domestic as well as domestic consumers. While most non-domestic consumers are on contracts with fixed end dates that constrain when a switch may occur, this is not the case in all instances. For example, non-domestic consumers that are being supplied on deemed contracts would benefit from being able to change supplier quickly and avoid paying potentially higher deemed contract rates." This has been dealt with through the 3<sup>rd</sup> Package requirement to allow switching to take place within 3 weeks.

This whole issue confirms us in our view that the DCC (and its faster processes) are only appropriate for domestic customers. Non-domestic customers should continue to use the existing arrangements.

*Proposition 7* ("Electricity data processing and aggregation services should be procured centrally in order to reduce costs and support fast customer switching") is an interesting concept and in theory we support it on the grounds that it levels the playing field between large and small suppliers.

We do not agree with *Proposition 8* viz that 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 burdens. If anything it should be other way round; metering and data collection are only a small part of the whole settlements process of, say, the BSC, which covers wider issues of balancing and which have nothing to do with Smart metering.

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

We agree with what is stated in the document relating to the benefits of a greater linkage between billing and settlement (*Proposition 5*). However, we would also argue that this is not just a matter of cost benefit. In essence, smart metering provides the opportunity for the costs of energy to be allocated appropriately. This is a principle the industry should be striving towards.

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

On *Proposition 6* the document states under Key issues: "Another question is whether changes should be made for all consumers or just those with smart meters. It may be that improvements to the change of supplier process could be made more quickly and efficiently for those customers with smart meters." We would suggest that changes should be made for those with smart meters and who are domestic and part of the DCC, but no others.

On *Proposition 7* the document states under Key issues "Centralised data processor and data aggregator services need not be procured by DCC. Other parties, such as Elexon, could theoretically undertake this function (in the way that Xoserve performs a similar role in gas). Such parties may be able to take this on sooner than DCC. This would need to be considered against the benefits of using DCC as a vehicle for central procurement." We agree that greater use of Elexon in this role makes sense.

On *Proposition 8* the document states under Key issues "A move to consolidate industry codes would necessarily require assessment of the appropriate governance arrangements. Given the potential to consolidate around the SEC, it would be helpful to consider this when establishing its governance arrangements. We will engage with the DECC Programme as they take forward development of the SEC. In doing so, we will consider the objectives of the code and the potential for consumer representation in its governance arrangements, drawing on the conclusions of Ofgem's Code Governance Review where appropriate." As we suggest above, this is not an appropriate development.

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

There's not much in this consultation about how Smartgrids in general will be facilitated in the document. The way in which suppliers and distributors interact with smart meters need to be considered together. We believe that the arrangements for wholesale markets and network regulation are significantly more important than the narrow focus on retail arrangements; retail market development is related but secondary in importance.

Should you wish to discuss any aspect of this matter, please do not hesitate to contact me.

Yours sincerely,

Colin Prestwich  
Deputy VP Commercial – Head of Regulation  
SmartestEnergy Limited.

T: 020 7195 1007  
M: 07764 949374