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Dear Harpal,

#### **Promoting smarter energy markets**

SSE and SGN are pleased to provide comments on the above consultation document. We welcome the ongoing engagement with Ofgem with regard to its proposals for promoting smarter energy markets following the mandated roll-out of smart metering. We have provided responses to the questions posed within the consultation in the attached annex.

We are pleased to note that Ofgem has decided to consult on the scope of a strategy to shape market developments in response to the smart meter roll-out. This will help ensure all relevant stakeholders are provided with opportunity to feed into Ofgem's work. This will in turn result in a more effective review of current market processes and enable wider benefits associated with smart metering to be realised.

We agree with the majority of Ofgem's proposals and comments. However we have two main concerns. Firstly, we consider that efficiencies can be achieved in data processing and aggregation without the need to centrally procure these services. The introduction of smart metering will remove many of the uncertainties that occur during a change of supply process. As the supplier will be able to access the customer's consumption details remotely (assuming the customer provides permission to do so) this change in approach alongside the ability to send meter readings to both suppliers simultaneously will remove the need for agent to agent flows between Data Processors to support the validation of meter readings. SSE would consider the requirement for centralising data aggregation is less compelling than that for data processing as de-centralised data aggregation has little impact on the cost, risk or timeliness of customer switching particularly with smart metering systems being able to provide remote meter readings upon change of supply.

Secondly, we are concerned the consultation document and proposed strategy focus mainly on retail and supply issues. To ensure the full benefits of smart metering and smarter energy markets can be realised we believe it is essential to also consider the wider transportation aspects for gas and electricity (including iGTs and iDNOs). Failure to do so could result in missed opportunities, inefficiencies and potentially perverse or detrimental outcomes.

Overall, we are welcome Ofgem's consultation on the strategy to shape market development from the platform of smart metering and support the majority of the proposals within the scoping document. We look forward to working with Ofgem to ensure the project delivers overall benefit to the energy market and, most importantly, consumers.

Please call me if you have any questions

Yours sincerely

Steven Findlay

**Regulation**

## Annex

### **Enabling retail market development**

#### **Time of use tariffs**

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

Yes, time-of-use (TOU) tariffs should help consumers lower their energy costs however this will be subject to improved engagement with consumers and will be dependent on all relevant parties having access to data required to ensure charges are cost reflective and drive the right behaviour. It is worth noting that during the Energy Demand Research Project (EDRP)<sup>1</sup> certain customers, after only a small prompt, demonstrated a willingness to engage with their supplier in order to reduce consumption. This could potentially lead to a 'snowballing' effect as customers begin to see benefits.

##### **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, we believe Ofgem has identified the majority of current market arrangements that could help or constrain the realisation of benefits for consumers. However, Ofgem need to consider time-of-use tariffs in relation to its proposals under the Retail Market Review<sup>2</sup>

Within the proposals Ofgem should also consider the potential impact on electricity and gas distribution network operators as TOU tariffs could be an important tool in assisting network operators to manage load and network constraints. Careful management of load at specific times and / or in specific geographic locations may provide an opportunity to reduce network reinforcement or operating costs in order to accommodate peak loads. This method is currently deployed in the North of Scotland; using the existing Radio Teleswitch System (RTS) to reduce load on otherwise constrained networks. Scottish Hydro Electric Power Distribution has avoided potentially costly system reinforcement. The demise of the RTS and installation of smart meters controlled by suppliers could potentially remove this benefit, as gas and electricity network operators may have little influence over load switching regimes under smart metering arrangements.

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

In order to design appropriate time-of-use tariffs suppliers and transporters will require access to timely information for development and testing purposes. Consideration will also need to be given to the level of granularity e.g. in electricity this could be half hourly but in gas it could be at 6 minute resolution. Under current proposals from DECC, parties may be unable to access data without the customer's prior consent. This could make it extremely challenging for a supplier or transporter to develop and determine whether a TOU tariff is suitable for a customer's specific circumstances. Also, not having access to this data as a default could potentially stifle innovation, not only in TOU tariffs, but also demand side management and energy service products.

We agree that Ofgem should give consideration to the impact of TOU tariffs on vulnerable customers.

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

<sup>1</sup> <http://www.ofgem.gov.uk/Sustainability/EDRP/Pages/EDRP.aspx>

<sup>2</sup> <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx>

Scottish Hydro Electric Power Distribution already uses TOU tariffs to assist with managing load in constrained areas and this could be extended to other locations as an alternative to expensive network reinforcement e.g. in electricity, should network load increase due to the take up of new low carbon technologies such as electric vehicles or heat pumps. Smart metering should be able to facilitate the development of alternative solutions (such as TOU tariffs) to network reinforcement.

In order to ensure the benefits described above are realised, suppliers and network operators will need to collaborate to develop market structures and commercial arrangements for the development and governance of such schemes such that benefits can be realised for all, without any unintended consequences of adverse impact on one party relative to another. For instance, to ensure networks aren't overloaded as a result of the introduction of new technologies and the over deployment of TOU tariffs in an uncoordinated manner e.g. electric vehicles all being charged at the same point in time.

### **Demand-side response**

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

Yes, we agree that more efficient use of demand-side response can lower overall energy costs. However, if Ofgem believe that regulatory change is required, this should be determined at an early stage so transporters and suppliers can determine the potential impact this could have.

While Ofgem do recognise the potential benefits that demand-side response can deliver to network operators significant stakeholder engagement and investment will be required to develop systems, processes and commercial arrangement to support the deployment of such systems. It will also be essential that access to essential data is secured at the necessary level of granularity. The Energy Networks Association (ENA) and the Energy Retail Association (ERA) have been considering these issues in recent work.

Consideration must also be given to the impact of shifting consumption from peak to off-peak times (as referred to in paragraph 3.22) as there may be unintended consequences associated with shifting load to other times of the day e.g. potentially overloading a section of the network. An example of this could be for an industry party to encourage consumers to charge electric vehicles at a particular time (to assist with energy or system balancing) which may in turn lead to local or regional sections of the electricity distribution network becoming overloaded.

#### **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, we agree that Ofgem has identified arrangements that could help or constrain the realisation of the benefits of demand-side response. However, we believe that further consideration needs to be given as to how demand-side response will impact upon future network operation. For example, how will network operators manage / facilitate routine work including maintenance, repairs, refurbishment in a scenario where network loading is significantly different from the present day scenario.

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

In order to allow customers to participate in, and benefit from demand-side response they are likely to need to invest in additional technology which facilitates participation and changes in behaviour. It is important that, in order to see the full benefit, all groups of customers, including fuel poor, are able to participate and take advantage of the benefits associated with

demand-side response. Careful consideration should be given to encourage participation of all consumer groups.

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

No further comment.

**Energy Services**

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

Yes, however consumer engagement is crucial. Energy Services will provide a positive experience and benefit to those consumers who are fully engaged within the energy market. Those who by default or by choice do not engage within the competitive energy market will not benefit from data analytics and matching offers. A strategy should be developed to ensure all customers can benefit from the emerging Energy Services market, particularly the most vulnerable and fuel poor.

**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, we agree that Ofgem has identified the relevant elements of the current arrangements.

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

Yes, we would strongly recommend that any Energy Services Companies should be subject to the same consumer protection obligations that suppliers adhere to within the gas and electricity supply licences. This would help ensure consistency for consumers when dealing with various different organisations within the marketplace.

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

No further comments.

**Payment methods**

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

We agree that consumers will have more payment options as a result of smart metering. However, mis-directed payments will remain for those customers paying by cash or card via payment outlets. Currently, it should be noted that only cash payments are available to prepayment customers. Expanding payment options will also result in suppliers being exposed the additional charges associated with credit and debit card transactions. Our initial estimates would indicate that the associated additional charges could double, or even treble, the cost to the supplier of an individual transaction. A dual fuel prepayment customer will make, on average, 90 transactions per annum and these costs will have a significant impact on the running costs associated with smart prepayment customers, should they decide to utilise the internet, telephone or mobile applications as their ongoing payment method.

Ofgem refer to the PPMIP being required in order to facilitate customers paying via prepayment meter. We do not agree with Ofgem's assumption that the costs associated with providing PPMIP form a significant part of the overall additional costs of managing prepayment customers. The PPMIP infrastructure has advanced since its inception in 1998. A licence condition is no longer in place provide such 'services' and as stated within the

consultation document a suppliers responsibility revolves solely around processing transactions under Master Registration Agreement MAP 14 rules. Any redirection of transactional records and payments are a chargeable service from the initial payment receiving supplier.

**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?**

The majority of costs associated in serving prepayment customers are the cost of the meter, meter management, the device associated with that meter, replacement device management, customer service support and the point of sale network service provision charges. SSE does not 'surcharge' prepayment customers to recoup the additional costs of administering the prepayment system. The costs associated with prepayment are smeared across our entire customer base therefore the cost savings associated with smart prepayment will also be smeared across the total domestic customer base, instead of directly impacting prepayment customers.

Within paragraph 3.51, Ofgem state that, "*DECC estimate that together these cost savings will amount to around £1 billion in net present value of gross benefits over 20 years.*" SSE is concerned that this savings figure has not taken into account the significant additional costs that will be incurred in the prepayment arena to meet Government, consumer representative and customer expectations in delivering a smart meter service for prepayment customers. There will be significant investment required in payment network extension and system updates to manage prepayment customers in a smart work. As previously stated, this will also be coupled with higher ongoing transaction charges.

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

We agree with Ofgem that suppliers do not envisage targeting prepayment customers as an accelerated element of the smart metering rollout programme. We are concerned that a number of specific issues are still outstanding during the foundation periods, such as the technical development of the in-home smart metering systems and the end to end processes currently envisaged to be under the DCC remains unresolved. SSE would foresee, that with no prepayment focussed forum or road map for resolution, this could result in smart prepayment rollout happening at a later date than the rest of the domestic market. The delay resulting from the failure to publish a technical metering specification has prevented metering manufacturers from developing technically compliant metering systems. As a direct result, compliant prepayment metering systems are even further delayed.

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

No further comments.

### Improving Market Processes

#### Settlement arrangements

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

Yes, we agree with the propositions set out in this chapter. However, we have set out a number of concerns below.

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

Yes, however moving registration services to DCC may result in a duplication of work and additional cost for network operators. It is probable that network operators will need to retain their own database of customers connected to their network. This database will need to be kept in an accurate and consistent state to that of Suppliers. Robust processes associated with the creation and deletion of MPAN's and MPRN's will need to be developed and it is important that these can only be amended on the authority of a network operator to whose network the supply point is connected. Failure to adequately manage the creation and deletion of MPAN's and MPRN's could result in situations where one or more industry parties is unaware of the existence of customers, potentially leading to poor customer service, safety issues and billing problems.

We require further information to determine exactly what is intended by moving registration services. We need to know which services will be transferred to the DCC and which will remain with the network operator. We believe that the consequences (including cost implications) associated with the transfer of registration services, maintaining duplicate systems and development of new processes need further consideration. Interactions with other activities such as the review of xoserve (funding, ownership and governance arrangements) must also be considered.

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

The timescale and scope for the transfer of registration services from network operators to the DCC needs to be clearly defined.

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

No further comments.

### **Change of supplier process**

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

Yes, we agree this should be a key area of focus for Ofgem. Consumer experience of the switching process is extremely important in maintaining a competitive energy market. If consumer perception of the switching process is undermined this could result in less consumer engagement.

We would also guard against creating the expectation that all consumers should be able to confidently switch supplier the next day. This creates unrealistic expectations. During the switching process a transfer could still be delayed for a number of reasons e.g. where there is an objection for debt or missing information. Also, Ofgem need to consider the 'cooling off period' as no switch will commence until this time period has elapsed.

Also, any significant change to the change of supplier process will impact on other aspects of the energy supply chain, and it will be important for Ofgem to identify and engage with all relevant stakeholders.

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

Yes, however we believe Ofgem should consider the impact that reducing the switching timescales could have on the various industry codes.

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



Yes, however Ofgem have set the expectation that erroneous transfers (ETs) could potentially be reduced. Whilst we agree with this statement in part we do not consider that smart metering will significantly reduce the overall number of ETs as these are more likely to occur due to the a supplier failing to identify the correct supply point or a consumer dispute upon sign up.

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

The implementation of intra-day switching should coincide with the installation of a significant mass of smart metering to ensure any changes can justify the cost.

**Data processing and aggregation**

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

SSE does not agree with the proposal set out in this chapter. . We believe efficiencies can be achieved in Data Processing and Data Aggregation without the need to centrally procure these services.

The introduction of smart metering will mean that on change of supplier it will become increasingly likely that the customer's tariff will change resulting in a reset of supplier registers. This change in approach alongside the ability to send change of supplier readings to the losing and gaining supplier simultaneously will remove the need for 'agent to agent' flows between Data Processors to support the of validation meter readings.

The argument for the centralising Data Aggregation is less compelling than that for Data Processing and we feel that de-centralised Data Aggregation has little impact on the cost, risk or timeliness of the switching process particularly with Smart Meters where actual Change of Supplier readings will become the norm.

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

SSE cannot agree that centrally re-procuring for the development and maintenance of systems and processes to support activities that have low ongoing costs for suppliers is beneficial.

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

No further comments.

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

No further comments.

**Code consolidation**

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

Yes, we support that the development of the Smart Energy Code (SEC) and this being used as a driver to consolidate existing industry codes. The obvious benefit of this being the ability to align the gas and electricity processes, where appropriate and efficient, to deliver an improved consumer experience.



We agree with the vision that the SEC becomes the code to cover all aspects of the retail industry arrangements focusing on supporting the customer interaction with the competitive energy market. That said, transporter interactions and requirements must also be considered.

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

No further comments.

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

We agree with the proposed timescale, that code consolidation needs to occur alongside the activity to centralise registration services. We note that legacy (non-Smart) arrangements will need to continue in place and be part of a consolidated code regardless of the smart metering roll-out.

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

No further comments.