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Bart Schoonbaert  
Ofgem Consumer Policy  
9 Millbank  
London  
SW1P 3GE

Our Ref: CJA

Your Ref: 100/13

14 February 2014

Dear Sirs

### **Consumer Empowerment and Protection in Smarter Markets**

Northern Powergrid is the electricity distribution business for the Northeast, Yorkshire and parts of northern Lincolnshire, operating through its two licensed subsidiaries, Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc. We welcome the opportunity to respond to Ofgem's first consultation to be issued under the Consumer Empowerment and Protection project.

Our response addresses not just the specific issues and questions raised in the consultation (in Appendix 1 to this letter), but also other issues that we feel should be addressed as part of the work programme on regulatory arrangements, consumer benefits, consumer empowerment and protections in a smarter market.

Northern Powergrid is pleased that the Retail Market Reforms (RMR) provides scope for early innovation, including for multiple tariff categories which accommodate time-of-use (ToU) tariffs, and we also welcome the derogation process that enables the development of more complex or innovative tariffs. In our response to question 5 we have highlighted some aspects of the current arrangements for constructing electricity tariffs that should be considered and potentially reviewed as part of Ofgem's programme.

Consumer empowerment is clearly key to delivering many of the potential benefits of smart meters. It is right to consider empowerment alongside protection as some vulnerable customers and certain market sub-sectors may not be able to react to price signals as well as the most engaged customers. The emphasis should definitely be placed on rewarding customers that are actively engaged and not penalising those that cannot.

It would be helpful if the scope Ofgem's programme included clarifying the objectives of ToU tariffs and benefits for different industry parties and stakeholders, for example whether tariffs could be aimed at either optimising use of the generation fleet, optimising use of distribution

#### **NORTHERN POWERGRID**

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and transmission networks or both. Clarity may also be needed on whether different objectives would apply to Suppliers ToU tariffs and DNO's ToU tariffs.

One of the benefits of ToU distribution use of system (DUoS) tariffs is the ability to send cost signals at the time of peak network demand that may help reduce consumer's demand and hence the need for system reinforcement. However, a further potential issue for future ToU tariffs is the possibility that suppliers provide cost signals to consumers that could in fact increase maximum demand on the network, for example by encouraging consumers to consume at times of high wind generation that coincide with the natural peak demand. If suppliers introduced dynamic tariffs that could respond quickly to scenarios such as excessive wind generation (say a 1:100 year event) that could arise at very short notice, the potential for the 'wrong combination' of load and generation could result in excessive demand on distribution networks. Further work would be needed to ensure that the effects of dynamic ToU tariffs could be managed in the future to avoid overstressing distribution networks or triggering reinforcement. We believe that as part of Ofgem's programme of work there should be an explicit requirement to assess the impact of supplier tariff initiatives on distribution networks.

Northern Powergrid remains keen to work with Ofgem, suppliers and with wider stakeholders and academics through direct engagement with projects under the Smarter Markets Programme and via our Customer-Led Network Revolution (CLNR) project.

We welcome the opportunity to share our views on this consultation with Ofgem and other interested industry parties.

Yours faithfully

*Chris Allanson*

Chris Allanson  
Market Strategy Manager

**APPENDIX 1: Consumer Empowerment and Protection in Smarter Markets - Response to specific questions.**

<b>Question 1:</b>	<b>Do you agree with our proposed approach to micro-businesses?</b>
	Yes.
<b>Question 2:</b>	<b>Do you agree with the focus areas we identified?</b>
	Yes. However, at question 5 we have offered some suggestions in the area of time of use tariffs.
<b>Question 3:</b>	<b>Do you agree with the objectives we set out?</b>
	Yes.
<b>Question 4:</b>	<b>Do you agree with the proposed phasing of work, or do you think some areas should be brought forward or pushed back?</b>
	Northern Powergrid agrees with the phasing of the work.
<b>Question 5:</b>	<b>Do you think we have missed any areas to focus on? When do you think we should address these?</b>
	<p>Northern Powergrid believes Ofgem has captured all the main areas to focus on in the programme and we offer some more detailed aspects to consider in the area of time of use tariffs.</p> <p>Consideration will need to be given to the merits and potential dis-benefits of smarter ToU distribution use of system (DUoS) tariffs for profile class (PC) 1-4 customers, for example tariffs with ‘red, amber, green’ (RAG) type unit pricing. Such tariffs have been applied in respect of larger half-hourly (HH) settled customers via the Common Distribution Charging Methodology (CDCM); Balancing and Settlement Code proposal P272 proposes to extend half-hourly settlement to profile classes 5-8 customers which will extend RAG DUoS unit pricing to the suppliers of these customers also.</p> <p>Prior to considering the benefits of RAG type tariffs to PC (1-4) three market features should be considered:</p> <ul style="list-style-type: none"> <li>• De-linking of supply and DUoS tariffs structures so that suppliers are not dependent on DNOs in the construction of their time banded supply tariffs;</li> <li>• Whether RAG ToU DUoS tariffs are required to incentivise suppliers to create ToU supply tariffs and whether current RAG cost signals in DUoS are actually reflected in existing supplier tariffs and contracts. More complex DUoS tariffs might make it harder for suppliers to develop new products; and</li> <li>• Whether there is a necessity for time banded DUoS tariffs for small customers. If the profile of power market pricing is sufficiently coincident with average DNO network demand profiles (including at system peak) ToU supplier tariffs that reflect power purchase pricing may be sufficient on their own to adequately influence customer behaviour at peak system demand (thereby potentially reducing DNO system reinforcement). However, industry parties and stakeholders would need to know what would happen if in certain periods or event types where they are not coincident and how any risk might be managed.</li> </ul> <p>Applying RAG type DUoS sends pricing signals to suppliers, with the intention of incentivising supplier’s to pass those signals on in end user tariffs. However, if suppliers were to be required to offer ToU end user tariffs and DNOs were also to bill suppliers on ToU DUoS, suppliers may face additional system costs i.e. for both the billing of end user tariffs and the costs of system changes to validate</p>

	<p>ToU DUoS bills.</p> <p>A move to ToU tariffs for PC 1-4 customers would no doubt be considered in the context of benefits and costs in the round in order to benefit consumers fully.</p>
<b>Question 6:</b>	<b>How would you like to engage with us throughout this work?</b>
	<p>We would like to continue to engage with the Ofgem via specific projects under the Smarter Markets Programme that DNOs can help with and where the potential outcomes may have implications for our stakeholders including DSR projects. We will also engage with the programme (in the wider context) via our CLNR project.</p> <p>We are also anticipating engagement with suppliers when they are developing innovative tariffs to ensure that we (in our use of system tariffs) do not cause any barriers to that innovation. DCP 179 is one of the changes to facilitate P272 which should reduce potential barriers for smarter trading of profile class 5-8 customers but may also impact customers in other profile classes; we are already working on the DCP 179 working group.</p>