

**Email Response to 2016-17 draft Forward Work Programme Consultation Document from Mr AM Guthrie**

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From: Alan Guthrie

Sent: 17 February 2016 11:14

I read your draft Programme with interest. I am a customer, AOP, engineer, I have worked many years in the metals (energy-instructive) industry, then in the electricity industry - before and after privatisation. I hope I can help.

I have tried to answer the questions in Appendix 2. Please tell me if you like any clarification.

Appendix 2 – Feedback Questionnaire

Please respond to this draft Forward Work Programme by noon on 17 February 2016.

Ofgem considers that consultation is at the heart of good policy development.

We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

Q1. Do you have any comments about the overall process which was adopted for this consultation?

A. The document did not directly seem to seek to consult with customers - the customers provide the money and, just as important, they are not all stupid - the media were not apparently asked to find interested customers to comment about the draft Programme.

Q2. Do you have any comments about the overall tone and content of the document?

YES. I am surprised when I read in your document, "Introduction":

"Looking at our energy system from an historical perspective, we have seen the introduction of privatisation and competition in the UK energy sector, but the way that energy is produced and consumed has not radically changed if we compare, say, 1970 to 2010. If we look forward 40 years from 2010, we will likely see a significantly different landscape in terms of how energy is both

produced and consumed. The energy landscape in a 'smart' future will be quite different from how it is today."

In some way that is true but in several ways from an historical objective perspective it is not accurate since, subjectively, it is/was quite different for energy users. Surely consumers, during 1970 and 2010, perceived an altered picture of the energy system, especially after privatisation and competition. In particular 1970 was a time when British Gas well underway made the national conversion from towns gas to natural (North Sea) gas - in my opinion that was a vast change. Later, gas needed to be imported and of course now in the immediate future "fracking" may be another factor. Most important, between 1970-2010 almost everyone expected energy (and/or fuel) would always continue to become more expensive. But, what now?

Personally, I worked in the energy industry in the 1970s and can give you some more observations - I am now of course a customer/ pensioner and can only comment on the domestic market.

First, forty years ago the electricity industry and gas competed against each other for customers (not just for the domestic market) . For example, the gas network was spreading more widely, yet on the other hand the Electricity Boards promoted "all-electric house" estates. An obvious point was that electricity storage heaters were available and promoted, using low-peak energy (with a two-rate meter). "Economy Seven" was popular, effective and was then one form of DSM (Demand Side Management) - no doubt Smart Meters will allow DSM much more in the next decades.

Second, before "Sid" in 1986, the public/ monopoly energy suppliers annually clearly showed in the local press what the tariffs were available. Now it is extremely difficult to find the tariffs offered from different suppliers - in consequence there are a dozen of licenced websites who may tell you the cheapest supplier for gas and electricity. However if the vulnerable customers can not use the internet, yet instead if we look in the "Yellow Pages", they can find nothing under "energy suppliers". Why not?

Again when I read in your document:

"The trust and confidence of both consumers and investors in the energy market is central to ensuring that our regulatory and markets framework delivers tangible benefits. In recent years, consumer trust has hit an all-time low. Helping rebuild this trust is a priority and a vitally important component of our work as an independent regulator."

I agree but in effect, after "Sid" privatisation and competition in the UK energy sector still means that some customers may say, "They're all the same" although now more suppliers and big or small. We know, before privatisation, the electricity and gas boards had each a shop in the local high street. But now face-to-face contact between customer and supplier is impossible. Telephone callers are often confused by a listed "menu", then waiting for many minutes for a helpful answer.

When I see Ofgem give big fines to suppliers, although those maybe reasonable yet (in my opinion) fines do not improve the trust and confidence with any supplier - possibly they are all painted by the same brush. You may have seen a recent letter in The Times, arguing that any fines may be passed on to customers - essentially, customers' bills are the only source of money - and I support that argument. (In fact, I think there are possible alternatives to fines, see your Question 6). Finally it does not help when most of the "Big Six" are foreign-owned, with only Centrica (British Gas) or SSE (in its various brands, eg Swalec) listed on the FTSE.

Q3. Was the document easy to read and understand, could it have been better written?

A. The consultation succeeded overall since it covered wide matters that were difficult and complicated topics.

Q4. To what extent did the document's conclusions provide a balanced view?

The document is not apparently aimed at users, however we hope the consultation will get contributions from customers. The UK media show concern that there may be enough electricity at peaks in the medium term but the consultation document seems not interested in that problem, other than smart meters and the smart grid, with smaller scale and intermittent sources of energy, will solve all our future problems.

Historically, over the 20th century, local electricity generators were joined by the network/grid, later bigger power stations were built, effectively CEGB (Central Electricity Generation Board) seem to demonstrate efficiency of scale. NGG I am sure will cope with peaks of power but NGG does not operate nor build UK power stations. Similarly it is unlikely for the "new" suppliers to build power stations and again Centrica (British Gas) is only a minor player in electricity generation here, although it has bought some smaller power stations. Now, suppliers (even the Big Six including EdF) seem reluctant to invest generating, even the suggestion that supply and production ought to be divorced. Other observers might consider that would be a retrograde step - obviously they may be wrong.

5. To what extent did the document make reasoned recommendations for improvement?

When Ofgem was created I heard Ofgem would help consumers to understand energy better, including market and industry - as below you put it, "the way that energy is produced and consumed". OK I am an engineer but most intelligent people could learn the difference between power and energy (kW and kWh). Sadly, media seem to fail to see that and the words "electricity" or "energy" and "power" often seem interchanged - it's not just semantic. If Ofgem won't improve the understanding of energy for UK people, then who will? It's not easy to do but it's worthwhile - that is a key to transparency. I do not see it in the Forward Programme consultation document.

Finally here, I cannot understand what “ Half-hourly settlement” means in:

"2.3. In 2016-17, we will take forward a project to introduce settlement for domestic consumers and small businesses based on their actual half-hourly meter readings. In the near-term, this will include work to remove barriers to cost-effective elective half-hourly settlement. We expect to have largely completed this work on elective half-hourly settlement during 2016-17.

2.4. Looking to the longer-term, we intend to launch a Significant Code Review (SCR) on mandatory half-hourly settlement for all consumers early in 2016-17"

Does that mean any customer can pay a bill every thirty minutes, with more money per kWh at a peak, while it'll be cheaper in the small hours? That assumes I must have a smart meter - what does “settlement” and “elective” mean ? and will “mandatory” says I must have a smart meter, although already I can now (happily) read my existing gas and electricity meters every month? (Wow, I'm amazed if “the longer-term” is 2016-2017). The document will make reasoned recommendations for improvement if it can explain what I can understand 2.3 and 2.4 are all about?

Q6. Do you have any further comments?

A. YES.

Firstly, again the Document talked about the period 1970-2010. In 1970 UK had a strategy CoCoNuke for electricity generation - coal, conservation and nuclear in our future. Now about half of our electricity is generated by gas - what happened? Recently, Dominic O'Connell in the Sunday Times and Ed Daniels (of Shell UK) writing to The Times, both argued that gas-fired power stations must be more used in the future.

Second, Ofgem reduced the number of tariffs. I recall in your Factsheet 107 14.10.11 “Simpler energy tariffs” for all gas and electricity customers but we know it is sadly out-of-date. Now, there are more dozens of suppliers with dozens of different tariffs. I suggest your draft Forward Work Programme should look if tariffs could be simpler, with all suppliers standardise the standing charges in each area. (At present the standing charge shows pence per day, rarely pound per year - it is infuriating to multiply by 365 - by 366 in 2016! - as you compare suppliers and tariffs. Of course suppliers may offer tariffs with no standing charge to the “small” customer to choose). That means the standing charges may still vary across the country as appropriate but where you live you pay the supplier's same standing charges then need only compare the pence per kWh between suppliers, so you can buy the cheapest tariff. Easy.

Third, the media have discussed if the Winter fuel payments are should for all pensioners, including the “well-off”. I suggest it is logical for Winter fuel payments to become part of the State Pension, so is taxable thus those well-off automatically partly returned it to HMRC, yet those in fuel poverty will have the money paid in full. (In fact about 1980 I suggested to my managers in the Electricity Council that the weekly State pension should be higher in the winter than in summer but my idea went no further).

Fourth, if a supplier is fined by Ofgem, instead I suggest that a guilty supplier should make amends by using resources and time to improve the understanding of energy in UK. For example a manager could talk to, say, schools, colleges, businesses, WI, local AOPs, wherever whoever can be assembled so he/she could explain to customers about tariffs, the information can be seen on bills and interpreted, the investment needed to look for gas, or the mix of fuels and renewables in generation of electricity, why peaks are a problem, etc - that is part of transparency and trust and confidence. As an engineer I hate a "them" and "us" attitude.

Finally, I happened to find online Hansard a Debate on the Lords, about 20,000 words but worth reading, dated 30 June 2004, including Lord Jenkin of Roding said, ".....our elderly coal-fired power stations are faced with stringent new EU emissions targets, as existing nuclear reactors reach the end of their lives and are closed....." but the same discussion may be heard as relevant as today !

Kind regards, Alan

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#### **Subsequent Email from Mr Guthrie sent 17 February**

sorry I apologise, in my earlier e-mail I said "about half" electricity is generated by gas but today in The Times the correct figure is 27.2%.

27.2% is a lot but not really approaching half.....

kind regards, Alan