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Call for Evidence: Future Supply Market Arrangements

Dear Mr Neil Barnes,

I refer to the above mentioned Call for Evidence (CfE) dated the 14th November 2017 and would like to thank you for the opportunity to respond.

Npower recognises the delicate balance regarding the Regulatory Framework conundrum: tension between enabling innovation and providing a stable, investable environment. We fully understand and support the evolution of the Future Supply Market and have based our response upon the following key points:

- The principles seem reasonable. The market is for consumers and hence the design must be consumer centric. The two essentials seem to be ; i) consumer protection, ii) synchronous system resilience

- The world has changed and now the current market is not fit for purpose to accommodate new business models at scale. The general approach to data design, privacy and cyber security needs considerable work.

- Consumer engagement with energy efficiency and the new energy markets will become ever more important and no consumer should be left behind. We are concerned about any dilution of the incentive to engage.

- Our view remains that Ofgem should directly regulate Third Party Intermediaries (TPIs and aggregators) in gas and power, especially in the small and medium business sector.

Please see our comments below, in reference to the four questions that were asked. We also have an accompanying document focused upon the future of the Supplier Hub. I hope that the information we have given provides satisfactory response. If you require any further information, please do not hesitate to contact me.

Yours sincerely,

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Consultation Response

Guiding criteria to evaluate a successful supply market

Q1) What are your views on the above criteria? Are there other criteria that should guide our assessment of current and possible future market arrangements?

They seem reasonable

The market is for consumers and hence the design must be consumer centric. The two essentials seem to be; i) consumer protection, ii) synchronous system resilience

We need to ensure that;

- any new model (that delivers the desired market access for new / disruptive players) does not distort the competitive market, place costs disproportionately or facilitate the avoidance of cost by some customers to be borne by others
- the role of heat and hydrogen are covered for future
- some regulatory frameworks and regulators will be required in future for new areas such as heating infrastructure
- any proposed solution should not entrench existing divisions between engaged and disengaged customers and in particular no consumer should be left behind
- innovation and better products / services shouldn't be the domain of only more engaged / wealthier / digitally enabled customers, any suggestions of changes to default obligations would further create distortion.
- much work is done on the best solution that enable participation in the digital economic while respecting privacy and attending to cyber risk
- if we are to modernise the approach with the customer in mind we need to understand how to rebalance payments within the system for energy, capacity and balancing in a way which encourages the distributed investments (e.g. battery / Photo voltaic) so we don't need to over build "big infrastructure" and pass the cost on to those least able to afford

Given the need to ensure that customers remain adequately protected and that all customers are able to enjoy fair (to be defined) pricing, it will be imperative to ensure that future market entrants (whether these are firms offering intermediary and other services) are required to meet and deliver the same level of standards. With rights come responsibilities and consumer protections and system services must be provided or paid for by all actors.

We believe that the above will support the specified criteria as well as the mandatory requirement of clear governance of any future business models and/or market entrants that seek to provide benefits to a particular segment or type of customer, which would ultimately result in other customers paying the cost.

Barriers to innovation

Q2) What are the most significant barriers to disruptive new business models operating in the retail market? Please draw a distinction between regulatory barriers and commercial barriers (e.g. there may not be enough potential consumer demand to justify market entry)

The world has changed and now the current market is not fit for purpose to accommodate new business models at scale. The general approach to data design, privacy and cyber security needs considerable work.

We agree that the rollout of smart meters and the associated energy consumption data will provide many new opportunities to engage as well as limitless new and innovative services.

The range of views on the approach to data is extreme and all sides need to compromise. Even amongst regulators the approach to data protection is inconsistent. This is true even at the basic level such as approaches to opt in and opt out.

The result of this is that the private sector cannot make the investment in data rich systems as the investment may be stranded or under used.

We observe that whilst the smart meter roll out is ongoing and there are genuine issues of customer trust and acceptance that the continuation of the opt-in system is appropriate in order to manage and support an efficient and effective roll out of the smart metering system.

In a future, where smart is the standard, there will be scope to encourage / communicate with customers to enable the opt-in for more access to their data, but this should not be an immediate priority. The existing Supplier HUB model is clear and works within the environment. Clear pricing signals and transparency of costs should be a priority.

With regards to the noted barriers to market; Whilst there may be concerns that customers are unable to have multiple providers servicing a single customer. We do not believe that is a genuine barrier and would rather suggest that is how the system operates and should operate. Customers are free to switch (and do so) and in future the timescales for switching will reduce. In the same way, a customer can only use their mobile phone at the same time with one provider, there is no value (or reason to seek to change the system) in enabling multiple providers for a single point in time.

With regards to aggregators or similar providers that wish to purchase the inherent flexibility of onsite generation or potentially Demand Side Response (DSR) assets (i.e. future scenarios such as Electric Vehicles (EVs), home storage systems, heat pumps) that can already be managed without having the meter registered to multiple providers. We believe that such services by their nature are intermittent and would therefore likely be the exception rather than the rule, and therefore do not access 100% of the time.

In a future energy world it is also likely that cost reductions made utilising innovations such as real time sensors and greater digitalisation will enable a technological solution to be developed. However, it will be important to ensure there are robust systems in place to sufficiently manage any resulting imbalances in order to ensure that any party, supplier, aggregator or customer is benefitting or being charged for actions they did not instigate. We note this is a live issue with larger scale DSR / balancing services being provided, which current industry proposals (P354) do not address.

To conclude, we believe that it is critical to ensure that commercial barriers are not seen as an issue to be overcome, given the continually asserted primacy or intended primacy of the competitive market. Where there is a sufficient consumer interest or the implicit value is too low, there should be no additional support provided to test these new models / approaches.

Alternative default arrangements

Q3) What other supply market arrangements would provide a better default for disengaged consumers, whereby they are protected adequately and are able to access the benefits of competition?

Consumer engagement with energy efficiency and the new energy markets will become ever more important and no consumer should be left behind. We are concerned about any dilution of the incentive to engage.

The way that the current tariff market works has distributional outcomes. This is in part resolved within the sector (e.g. Energy Companies Obligation ECO, other obligations and cross subsidies, Warm Homes Discount).

In all markets, engagement is rewarded. The corollary is that non engagement is not rewarded. The key here is to enable engagement. Engagement in tariff choice is straightforward and requires no capital. We do have concerns that the new markets may leave some consumers behind and that this could be socially regressive. The answer is *not* to disable consumer choice and participation. The answer is to enable choice and encourage private sector solutions (photo voltaic “rent a roof” is an example of private sector innovation, green deal can be resurrected with less regulatory over-engineering) and otherwise fiscal support (within sector where optimal, such as ECO).

Whilst we do understand that the complex regulatory environment presents some challenges to new entry suppliers, that the numerous exemptions from consumer protections are ultimately unhelpful and risk confusing the objective of helping consumers with helping market actors. The answer is to re-design the market so that there is no need for exemptions from consumer protection.

As noted above, the overall approach to data privacy and permissions is not fit for purpose and it is very difficult for the private sector which such different views within the state.

To take a single example, an opt-out collective switch may have all sorts of unintended consequences such as; i) deterring engagement generally, ii) the switch not actually switching to the cheapest supplier for that customer, iii) the tariff type not being suitable, iv) the deterrence to tariff engagement causing deterrence to energy efficiency and prosumer engagement, v) further confusion on the data protection law and regulations on opting and consent

Consumer Protection:

Q4) How big an issue is it that we do not currently regulate intermediaries in the energy market? Is there a case for doing so? If so, how would we best do it? We are especially interested in frameworks that enable a wider variety and increased number of market participants to provide supply.

Our view remains that Ofgem should directly regulate Third Party Intermediaries (TPIs) in gas and power, especially in the small and medium business sector.

In the Supplier Hub model, suppliers are responsible for their agents. This includes TPIs. In practices this is extremely difficult. For example a TPI engaged by telesales may engage in a call on behalf of many gas and suppliers and may sell other products. It is not possible in practice then for the supplier fully to audit the calls.

We note the advent of new market actors, such as aggregators. They all need regulating.

We fully agree that energy is an essential service and as such, a body, organisation or third party channel that provides the means or facilitates the supply of energy to a household or business must be subject to the same guiding principles and requirements. If the intent is to ensure customers are protected from harm (irrespective of their vulnerability) then the rules must apply equally to all providers of such services.

With regards to the proposal for a general authorisation regime with graduated obligations; This could be a practical solution, so long as the minimum requirements, including default obligations are universally applied and governed by the same requirements. We believe that these should provide the consumer and associated consumer organisations with the clarity on the roles and responsibilities governing the products and or services provided.

As per our response to previous questions, our key concerns remain that any suggestion or policy intent to provide a fully regulated, default obligation service for vulnerable and or disengaged customers that would only be borne by certain suppliers would significantly distort the market to the detriment of customers and the wider competitive market.

We would welcome the increase in additional competitors within the supply market given our firm belief that healthy competition will provide the best consumer outcomes. However, this competition must be genuine and not based on an artificial cost difference that enables smaller organisations to avoid legislative and regulatory obligations such as environmental and social obligations such as ECO, Warm Home Discount and the costs of supporting smart infrastructure.

Npower believes that there is much scope to reduce the complexity and burden upon suppliers to provide certain services and obligations which would be better managed via the state through general taxation or more joined up governmental policies.

We believe that it will also need to be demonstrated how any new rules (designed to foster innovation, increase the role and range of new participants) will tackle and support the broader issue of disengagement. There is an underlying risk to the market of being split into two tiers, with innovation and new and exciting products targeting the already engagement market only. We believe that how the wider market can be engaged needs to remain the cornerstone for any future regulatory change.