Future Retail Market Design Team
Ofgem
Office of Gas and Electricity Markets
10 South Colonnade
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E14 4PU

11 September 2019

Dear Colleague,

Flexible and responsive energy retail markets – ESB Energy Response

ESB Energy welcomes the opportunity to respond to your consultation[1] on flexible and responsive energy retail markets.

Your consultation sets out a vision for the outcomes the energy market will deliver in 2050 and sets out some initial proposals on how to get there. In the context of Net-Zero 2050, it's unclear whether natural gas will play any role in the energy system. For this reason, our consultation response largely focuses on the electricity system.

An essential feature of the energy market is that all participants are connected to the largest machine in the country, the National Grid. It underpins the nation's economy and provides essential heat and power to consumers. Hundreds of commercial entities must work together to keep it in balance at all times, at an efficient cost. The behaviour of one firm can shift the grid out of balance, financially impacting other firms connected to the grid or causing detriment to end consumers. For this important reason, the sector is heavily regulated in a way that reflects the engineering principles, interconnectedness and necessity of the energy system.

Your consultation sets out a vision for the outcomes the energy market will deliver in 2050. However, it's not at all clear what the strategy is for achieving these outcomes. There a few near term proposals (which we comment on later) but the remaining proposals are vague. If there is a theme, it's to allow new business models into the market without much consideration for the impact they may have on the National Grid or whether they'll bring value to the end consumer. Given the interconnectedness of the system, these kind of changes will certainly add complexity, which will in turn add cost to end users bills. It's unclear whether they will deliver any benefits.

We are disappointed that you haven't instead looked to simplify the energy market and reduce cost and complexity by reducing the number of counterparties in the market. There would appear to be plenty of scope for reducing cost and complexity in this way, for example, by centralising all metering activities. However, given this is a long-term review, perhaps there is still time to revisit this. We'd be more than happy to engage with you in this regard.

In the near term you suggest further reforms to ECO, specifically a buyout mechanism through which suppliers can discharge their obligations. If, and only if, such a mechanism was put in place, could it make sense to abolish the ECO thresholds. However, we would urge you to be more ambitious in considering your options for funding a successor to ECO3. An approach whereby all suppliers pay proportionately into a single pot for use by a single provider of ECO measures or a Capacity Market-style energy efficiency market mechanism would eliminate market distortions entirely, allow suppliers to focus on energy supply and give them space to innovate in areas closer to their core competencies, such as services to National Grid. For business planning and contract management purposes it would be useful to know your intentions on ECO and post-ECO funding as soon as possible.

With regards to WHD, it's unclear wither your intent has changed from your 2018 Response[2]. To be clear, any proposal to abolish the WHD threshold ahead of the introduction of data matching for all eligible WHD customers would impose a burden on smaller suppliers that you deemed too onerous just a year ago. We would appreciate further clarity from you on your intentions.

[1] https://www.gov.uk/government/consultations/flexible-and-responsive-energy-retail-markets
[2] https://www.gov.uk/government/consultations/warm-home-discount-scheme-2018-to-2019

Finally, a short-term priority for you should be an overhaul of how Renewables Obligation payments are collected. An approach similar to that used for the Feed-in Tariffs scheme would lead to fewer RO costs being mutualised in the event of a supplier failure.

The challenge to deliver a competitive, fair and zero-carbon energy market must be met. We are more than happy to engage and assist you in this endeavour. Please don't hesitate to get in touch.

Yours Sincerely,

Paul Fuller
Regulation Manager

CC BEIS Energy Markets and Affordability Team