

National Smart Meter Programme

Smart Metering High Level Design

Transition to Time of Use

CER/15/053

Consultation Paper Response

Introduction

Bord Gais Energy welcomes this opportunity to respond to the public consultation on managing the transition to Time of Use Tariffs.

We acknowledge that the 2014 Decision Paper (CER 14/046) introduces a mandatory Time of Use tariff obligation on all suppliers. We also acknowledge that a default tariff type will be created along with supplier-specific variations and a mechanism to introduce new tariffs over time. We underline that the move to Time of Use tariffs is underpinned by two supporting principles: availability of interval consumption data for all consumers and reform of the settlement market to support within-day time based charging and settlement based on actual consumption.

Time of Use tariffs will be enabled by the deployment of an active smart meter to a customer home. This rollout will happen over a period of time and therefore some important principles emerge for the introduction of a Time of Use Tariff within the Irish market.

- A reliable communication infrastructure is established to ensure daily retrieval of actual energy consumption from all participating homes.
- An active smart meter is deployed to the home and connected to the national communications infrastructure.
- Smart Meters are deployed on an equitable basis to ensure that no supplier is unfairly advantaged or disadvantaged by the sequence of the rollout.
- Interval consumption data is available for an appropriate period of time (12-15 months) in advance to allow development of Time of Use tariffs.
- Supplier tariffs are launched in parallel with a standard default tariff to ensure consumer choice and maximum consumer engagement.
- Structures exist to allow suppliers to develop new Time of Use tariffs without compromising the commercial advantages that derive from innovation in this area.
- Policy direction should a set of guiding principles and valued outcomes/goals rather than a prescriptive set of activities and restrictions in which the desired outcome is obscure or not specified.

Time of use tariffs are proposed in order to enable consumers to choose to consume electricity during cheaper, off-peak times. We understand the supplier mandate in CER 14/046 to develop a standard smart tariff, the form of which will be defined by CER. We believe that in order for maximum benefit to derive from Time of Use, the mandate should be a mandate to offer time of use and not a mandate to accept. Our research shows that many consumers do not have discretionary electricity use and therefore see time of use

charging as a 'tax'. Where consumers with off-peak usage or discretionary electricity use are allowed to choose an appropriate tariff then that tariff is more appealing to them and they are more likely to engage with it. It also means that those remaining on a flat tariff may see a small variation in the cost of that tariff but that could act as a motivation to move to Time of Use arrangements.

We think that the experience in other markets is very useful in relation to rollout of time of use tariffs. The perception of fairness is central to consumer acceptance of new offers in this area. The experience in many overseas markets does not map well to the Irish experience and these markets may not be suitable for comparison with Ireland. As a de-regulated energy market, Ireland compares poorly to a market such as Ontario for example which is strongly regulated with a prescriptive and highly standardized approach to Smart Metering. In that context, the Ontario regulator specifies many details of the Smart rollout and decides the form and the level of tariffs that may be offered in that market. It is worth noting that in that market, the Smart rollout has been deemed to have no measurable effect on consumer behavior and consequently no measurable benefit to the market.

Regarding new tariff innovation and for certainty, we repeat our previous responses in relation to the creation of a 'Test Bed' to facilitate tariff creation. We fail to understand the justification for or the merit of a "test bed" for more advanced tariffs. In operation, a supplier would require permission from the CER to test a tariff. This level of regulatory discretion would seem inappropriate in a de-regulated market and would dampen innovation and competition. If the tariff were successful and appealing to the consumer, it would seem extremely counter-intuitive to have to then withdraw it. More importantly, it would be difficult to develop a test tariff in confidence. Were a sample of say one or two thousand customers to trial a tariff, it would immediately put what was the competitive advantage of that supplier into the public domain prior to its potential launch. This would mean that any competitive advantage would be negated. It runs contrary to the principles of a competitive market, that any one player must make what is their intellectual property known (effectively) to all before they can first derive any benefit from it. It would simply stifle innovation. In our view, this is poorly conceived and in reality it is anti-competitive and impractical to operate. Tariffs take a considerable period of time to develop and test. Regulation can play a strong role in encouraging such innovation and investment and this is not facilitated in the 'test bed' approach.

Time of Use Tariffs: Evaluation Criteria

We remain concerned at the suggestion that the CER should have a role decide the form and range of tariffs that may be offered by suppliers. Such an intervention can dampen innovation, reduce competition and have unforeseen negative consequences for consumers. Bord Gais Energy has a strong, valued relationship with its customers. It seeks to create market offerings that maximise value and loyalty. In seeking to interpret our customers’ needs, this ‘regulator knows best’ model could actually reduce consumer protection.

At a minimum, it is important that any assessing criteria be transparent and independently measurable to avoid confusion on the part of consumers or suppliers. There is no current requirement that tariffs are easy to understand. Not all tariffs are for all customers. Therefore, we question how an ‘easy to understand’ criterion would be measured or the regulatory motivation for introducing such a criterion. The consultation paper acknowledges that there is a “potential increase in choice” arising from alternative ToU Tariffs. Choice in itself creates consumer engagement. Tariff alternatives should be viewed in a positive light. We also believe that sufficient consumer protection mechanisms currently exist (via the Supplier Handbook, Codes of Practice and Charter etc.) to protect consumers going forward in Smart Metering environment.

Substantive Questions:

Question 1:

Do you have any observations on way in which examples have been defined – recognising that they are points on a spectrum, and do not rule out consideration of variants?

We understand that each of the examples are presented as points on a spectrum, moving from detailed and specific to more general and guiding. As a guiding principle, we believe that consumers’ best interests are served when policy is framed as a guiding principle accompanied by documented desired policy outcomes. This allows the collective wisdom of the market to be applied to achieving the policy goal. A prescriptive approach obscures the desired outcome and prevents the market from participating and innovating to achieve the best outcome. A prescriptive approach would introduce distortions and restrict competition in the ‘de-regulated’ energy market.

Question 2:

Do you have any comments on Example A – including reasoning or evidence that you consider to be relevant to its assessment, or alternative examples that in your view better address the relevant criteria?

Through CER’ s own consultation process, consumers have repeatedly and instinctively identified a single, restrictive default tariff as unfair and as a ‘tax’ on consumption. Such an approach risks early and substantial consumer dis-engagement.

Question 3:

Do you have any comments on Example B – including reasoning or evidence that you consider to be relevant to its assessment, or alternative examples that in your view better address the relevant criteria?

This touches on some of the principles identified earlier that allow a measured and fair migration to Time of Use tariffs. The enabling platform is in place, there is some substantial time available to assess consumption data before deployment of tariffs and consumers are guided in increasing numbers towards a new Time of Use regime. In order to avoid the perception of unfairness in example A, then a range of tariffs should be available from each supplier at the start of transition. This would reinforce consumer engagement and choice.

Question 4:

Do you have any comments on Example C – including reasoning or evidence that you consider to be relevant to its assessment, or alternative examples that in your view better address the relevant criteria?

Example C allows consumers to move back and forth between flat and Time of Use tariffs. This allows Time of Use tariffs to be placed alongside legacy tariffs and for consumers to choose the most relevant one. The perception of consumer choice and fairness that follows from this should ensure a more engaged consumer. The rollout approach, communication infrastructure challenges and household topology mean that some customers will always remain on a non-smart tariff. This approach, in which flat tariffs endure, would ensure that consumers are not unfairly stigmatised by the lack of availability of smart tariffs in their area.

Question 5:

Do you have any observations on the potential rules governing each supplier's Standard Smart Tariff, and how they might interact with the overall approach adopted for introducing Time-of-Use Tariffs?

Even at the basic level, the CER has already heavily specified the standard tariff and its general form. This places the regulation firmly towards the 'regulation of detail'. We understand that the motivation may be that such an approach ensures that at least one Time of Use tariff exists in the market. The risk with this approach is that it presumes to incorporate a principle but moves to a specific implementation of that principle with no flexibility to innovate. A more helpful starting point may be to suggest that Time of Use tariffs should be introduced by default. The form of tariffs should not conflict with the national programme goals and should encourage energy consumption consistent with those goals. This avoids a consumer perception of unfairness, restrictiveness or 'punishment' for behaviour over which they may have no discretion. It allows a peak tariff to be developed and aimed at those consumers who contribute to the national peak usage but have the discretionary usage opportunity to be able to vary their behaviour.

Question 6:

Do you have any observations on the potential rules governing permitted alternative tariffs, and how they might interact with the overall approach adopted for introducing Time-of-Use Tariffs?

Acknowledging the principles identified earlier, policy guidance that doesn't focus on tariff structure so much as other criteria are set to ensure better outcomes for the consumer. The guiding principles for the tariff topic are laid out ('easy to understand' etc) and suppliers are capable of creating appropriate tariffs that align with this but most importantly that resonate with the consumer and have attributes that are recognisable by consumers, and are therefore useful for comparison and assessment. It is in the best interest of the market to converge towards terminology and comparison attributes that make most sense to end users. It seems overly restrictive to try to identify the language and attributes of comparison

in advance of use.

Question 7:

Do you have any observations on the potential rules governing “test bed” tariffs, and how they might interact with the overall approach adopted for introducing Time-of-Use Tariffs?

By their nature, new tariffs are innovative and designed to appeal to consumers. The development of a new tariff is a substantial undertaking for any supplier. It arises out of a period of analysis and insight and is complex to deliver. In such a context, the mechanism by which the tariff enters the market should protect the supplier’s investment and the consumers benefit. The risk with a national tariff test bed is that innovation opportunities are eliminated as commercial confidentiality becomes impossible to protect.

Question 8:

Do you have any observations on the potential rules governing standard metrics for Time-of-Use Tariff comparisons, and how they might interact with the overall approach adopted for introducing Time-of-Use Tariffs?

As a new concept in the Irish market, time of use costing for energy consumption may lead to a revolution in consumer behaviour. An early attempt to standardise such a change diminishes its impact and potentially ensures that its promise is never delivered. New tariff innovation guided by the national programmes principles of energy reduction, demand shifting and micro-generation offer the best chance of success. Common industry terminology should emerge derived from experience and consumer adoption and therefore having far more resonance with end users.