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Electric Ireland response to CER/15/053 – Managing the Transition to Time of Use Tariffs consultation

Electric Ireland welcomes the opportunity to respond to the Managing the Transition to Time of Use (TOU) Tariffs consultation paper. One of the critical success factors for the National Smart Metering Programme (NSMP) is customer acceptance. Based on the international experience of smart metering rollouts to date it is Electric Irelands opinion that the inclusion of a mandated Time of Use tariff as part of the Programme is a high risk to customer acceptance and may lead to high levels of non participation.

International experience of mandating TOU tariffs as part of smart metering rollouts have led to high levels of customer dissatisfaction and complaint. For example in Victoria Australia The Victorian Department of Environment and Primary Industries (DEPI) decided in 2007 to roll out smart meters and TOU tariffs to all customers by the end of 2013. After consumer backlash to Smart Meters in general and bill shocks in particular the regulator decided to review the TOU tariff mandate. The final blow to mandatory TOU tariffs came when the University St Vincent de Paul of Melbourne (Johnston 2009) published a report showing that vulnerable consumers such as elderly, long-term unemployed and people with disabilities will be disproportionately disadvantaged by the new pricing plan due to potential difficulties in shifting their energy use to off-peak periods. In the face of the popular backlash that ensued, the Victorian government announced in March 2010 a moratorium on mandatory TOU tariffs (still in place at the time of writing) while the installation of smart meters across Victoria continues in accordance with legislative requirements.

In a second example, Hydro One, the largest utility in Ontario has installed more than 1.3 million smart meters and was required to introduce time-of-use (TOU) pricing for all residential and small business electricity customers. The transfer to TOU was completed for all Hydro One customers as they got a smart meter installed (similar to Scenario A set out in this consultation paper). In the wake of the TOU introduction there was a sharp spike in complaints about billing and customer dissatisfaction at Hydro One – by March 31, 2014, Hydro One had garnered 6,961 complaints. This has increased to >10,000 complaints in total to date (2015). The territory's Ombudsman has never received so many complaints about a single government organisation, he said, pushing up the annual total 2014 to a record 26,999 complaints — a 37% increase from the year before.

Closer to home, a study titled 'Is it time? Consumers and time of use tariffs: Trialling the effect of tariff design and marketing on consumer demand for demand-side response tariffs' conducted in 2015 by Smart GB, the UK body charged with Customer Engagement for the UK smart metering roll out, found that only 30% of those surveyed would opt for a TOU tariff while over twice this number would strongly object to moving to a TOU tariff. Similarly in Oklahoma, OGE found that only one third of its customers would opt for a TOU tariff, one third may be convinced to opt for a TOU tariff but one third would strongly object to being put on a TOU tariff.

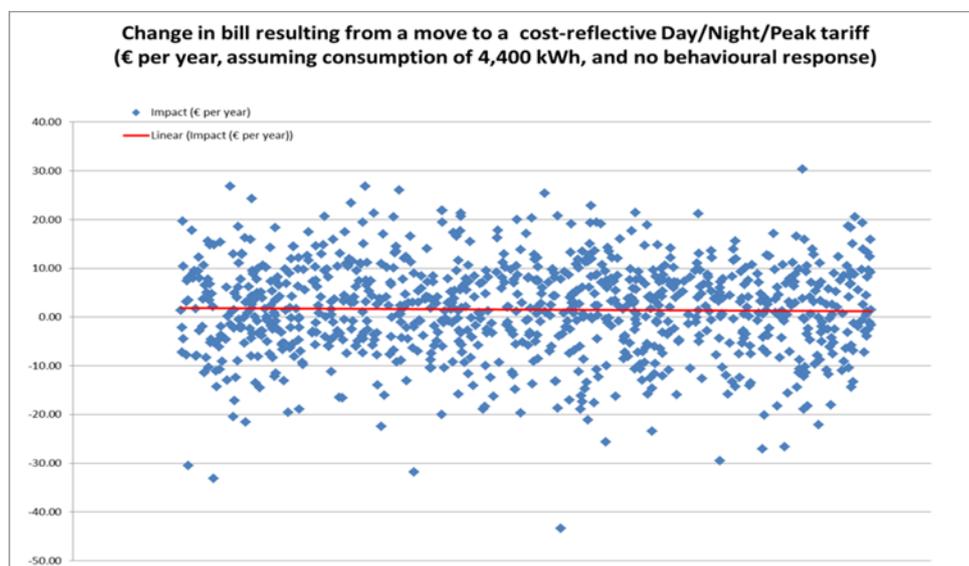
By mandating a TOU tariff the CER risks dissatisfying two thirds of consumers in Ireland with possibly half this number strongly objecting to being forced to take a TOU mandate..

It is worth noting at this point that the NSMP trial took place during a period of peak electricity consumption in Ireland and the decision to mandate a TOU tariff was made at a time when it was expected that consumption would continue to rise and system capacity would become an issue, one which could possibly be assisted by mandating a TOU tariff. However the Irish electricity consumption peaked in 2008 when it hit 5,000 megawatts and current demand level is under 4000 megawatts per day, a 20% reduction. Indeed the primary purpose of TOU tariffs of shifting the peak from a particular time of day may no longer be as relevant in the system of the future due to the addition of increasing amounts of renewable generation and the trends

towards more distributed generation and less predictable supply while having overall excess capacity.

The likely structure of the proposed mandated TOU tariff, if similar to that used in the Trial, will consist of day, night and peak time bands with the likely peak between 5-7 pm. By definition, those who will benefit from TOU tariffs either already use more electricity at cheaper times of day, or are willing and able to shift their demand accordingly. Those households that are best off under the TOU tariff are those with below average consumption at peak times. This type of structure will negatively impact families returning home from work and education in the evenings to cook dinner, eat together and heat the home and those with non discretionary load. Indeed it is worth noting that during the NSMP trial 50% of consumers involved incurred higher bills of up to €30 per annum and 50% of consumers involved saved up to €30 per annum (figure 1). By introducing a mandated TOU tariff the CER risks seeing 50% of consumers incur higher bills after the roll out of smart meters.

Figure 1.



We have recently seen developments in the utility software industry deliver reliable demand reduction through the use of behavioral science, big data analytics, and real-time communication proving that customer behavior can play a significant role in helping to shave peak demand without the use of TOU tariffs.

Using smart meter data, proprietary analytics, behavioral science, and highly personalised communication Opower has driven measurable peak reduction without a price signal or device in the home. In 2014 across multiple utility partners and 10 events, their cloud-based service delivered consistent and cost effective savings with the overwhelming majority of customers surveyed reporting that they were satisfied with the program. And in Southern California, when temperatures hit record highs, a residential peak load reduction of 5.04% at 5 pm local time was delivered.

It can be argued that the inclusion of a mandated TOU is fundamental to the business case for the NSMP. However, in our view, if the business case for the NSMP is predicated on forcing all customers to adopt a TOU tariff then we believe that it is not a sound basis for justifying the investment as it assumes dissatisfied customers will comply in any case. Recent experience witnessed in Ireland with the water meter rollout would undermine this assumption. It would therefore be prudent to revisit the business case in this regard.

In section 2.2 of the consultation paper it is stated that 'The CER is taking a consumer centric approach to the NSMP and the rollout of Smart Meters'. We would contend that based on the evidence presented here on international experience of mandated TOU tariffs, research performed this year by the UCL Energy Institute for Smart GB and the likely negative impact on the bill of a large proportion of Irish consumers that a TOU tariff mandate is not a consumer centric approach.

It is our strong considered recommendation that the CER reconsiders its decision to mandate a TOU tariff and instead decides to offer it as an option for customers to avail of should they wish.

Specific questions set out by paper

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?

For completeness at this consultation phase for the decision making process there is merit in exploring the option of no mandate in the same way that the three options have been assessed. This option would be similar to Example C but with no backstop date for a default to a Standard Smart Tariff. This approach is similar to the approach that will be used in the UK where there is an expectation that 20% of consumers will choose a TOU tariff.

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?

Example A involves the transition to a Suppliers Standard Smart Tariff quickly and limits the range of tariffs available to one. This option is extremely limiting for customers, it forces them onto a tariff that they have not chosen and does not allow any time for a Supplier to educate their customers on their consumption patterns to enable them to reduce their bills. As set out in the introduction section of our response this option has failed in other markets and has led to strong consumer backlash to the smart meter rollouts. Electric Ireland feel that this is the highest risk option for transition.

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 transition option features the transition of customers to their Suppliers standard smart tariff within a defined period of time, e.g. 12-15 months. The tariff that customers default to will be the standard smart tariff but suppliers may offer alternative tariffs, however, once a customer moves to a TOU tariff they may not revert to a flat rate tariff. While on the face of it this option offers customers more choice and additional time to learn about their behaviour ultimately it is still forcing a mandate of a TOU tariff on consumers if they accept a smart meter. We have seen from the UCL Energy Institute study that 60% of customers surveyed strongly objected to being put on a TOU tariff, it is therefore highly likely that the majority of consumers will not be

satisfied with being transitioned to a TOU tariff by the CER and may become non participants,. Evidence from Oklahoma would also support this case.

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 includes a TOU tariff choice for every customer and customers can choose to revert to a flat rate tariff if they wish until a back stop date which will be set by the CER. At this date any customer who is not on a TOU tariff will transition to their suppliers Standard Smart tariff. This option offers more flexibility and choice for consumers. Consumers can try TOU tariffs knowing that they can revert to flat rates. The inclusion of a back stop date in this option, however far away, still means that the 35% plus consumers that will strongly object to TOU tariffs will be forced to accept one which does not mitigate the risk to non participation set out in answer 3.

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?

Electric Ireland's preference is for 'regulation through guiding principles' for suppliers Standard Smart Tariff. With this option the CER defines the time bands and sets some principles that each supplier's Standard Smart Tariff must embody. This will strike a strong balance between avoiding customer confusion and encouraging supplier innovation supporting competition and ultimately customer choice.

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?

Electric Irelands preference regarding the permitted alternative tariffs is 'Unconstrained if static'. With this option a supplier is permitted to offer any tariff as long as unit rates and time bands are set sufficiently in advance. This will enable suppliers to produce customer orientated products that may suit customer segments not catered for with the standard smart tariff.

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?

Electric Ireland's preference is of the 'Constrained only on initial numbers' option. Under this option, any tariff would be permissible for the test bed. The only constraint would be on the number of customers it can be offered to in the first instance and its duration. Electric Ireland would also be in favour of suppliers being able to extend this offer to all its customers, if appropriate, and successful with the 'test bed' so that benefits can be extended to a wider group of customers. It is important that the CER encourages supplier innovation in this area to enable supporting of developments in home automation, optimisation of renewable energy usage and energy efficiency.

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?

It is in the interest of both customers and suppliers that standard metrics for Time-of-Use Tariff comparisons are established. Electric Irelands preference is for 'Regulation by reference to principles'. In this option the CER obligates each supplier to present its tariffs in a manner that meets certain criteria. The market may then coalesce around some standard metrics and measures, prompted by commercial pressures to do so and the service provision by third parties.