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CRU CONSULTATION ON COMPARISON TOOLS FOR TIME OF  
USE TARIFFS- SSE AIRTRICITY RESPONSE

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19<sup>th</sup> October 2020



## Introduction

As part of the introduction of Smart Services in January 2021, SSE Airtricity welcomes the opportunity to respond to the CRU's consultation paper on the use of the Estimated Annual Bill (EAB) to the Standard Smart Tariff.

As we understand it, the CRU is proposing three changes to the use of the EAB.

These are;

1. That for smart tariffs, Suppliers would be required to only use an EAB for a Standard Smart Tariff (SST) i.e. a Day, Night, Peak tariff offering.
2. The use of the EAB would continue to apply as it already does for non-smart tariff offerings i.e. based on a 24-hour meter configuration
3. The SST EAB would be based on 3 tariff bands and utilise a domestic load profile provided by ESB Networks. A consumption of 4,200 KWh would apply to both non-smart tariff offerings and standard smart tariff offerings.

In summary, while SSE Airtricity welcomes the intention of the CRU to assist customers in shopping around for the best deal to suit their needs, we feel that the proposed EAB for SST is premature for Smart Services at this time, given that Smart Services are in their infancy and that an accurate representation of a typical Smart Services customer connection will require time to build up a typical profile.

In addition, we are of the view that the blunt application of a comparison tool which is aimed at addressing customer inertia misses the point of smart services in general, which is to engage customers in a meaningful way on how they consume energy day-to-day.

Our position is that the proposal should, at this stage, not be progressed and instead a more comprehensive review of comparison tools and consumer information should instead be undertaken in 2021.

We believe that to implement the SST EAB as proposed will not serve customers well at this time and that a more holistic review is merited, to consider the balance between customer information and customer comprehension. Such a holistic review would be particularly welcome with the advent of smart services and Microgen, both significant changes to the energy supply landscape which are intended to stimulate a paradigm shift from inactive to active energy customers.

## Development of Comparison Tools

During the consultation for the implementation of the EAB in 2016, the CRU's position was that the EAB was:

*designed to provide customers with an easy to understand, transparent metric by which they can compare offers from different suppliers, and therefore make the decision to move to a more advantageous offering, confident that they have made the right choice for their circumstances. This*

*requirement, combined with the obligations to prompt passive customers, should lead to increased competition in the market and the benefits of competition going to more consumers<sup>1</sup>*

SSE Airtricity understands the rationale of the introduction of the EAB at the time based on the following factors;

- Customer inertia was high, resulting in an incumbent Supplier retaining a dominant position in the market
- Such inertia was due to customer misapprehension rather than switching friction in the market, and customers belief that the opportunity cost of switching outweighed the benefits;

Given that Domestic customers were largely passive a one-size fits all comparator tool, although not applicable to all customer meter type assisted customers in being able to compare energy offers across different suppliers.

Therefore, the context of the EAB developed as a prompt and aid for switching, to address customer inertia, is a factor which cannot be under estimated. This contrasts with Smart Services, and the transition to Time-of-Use Tariffs (ToU).

In it's 2018 Decision Paper the CRU states that:

*The CRU has decided not to adopt a 'one-size fits all' approach to the transition to time-of-use tariffs. Rather, the CRU has introduced obligations on electricity suppliers to take primary responsibility for engaging with electricity customers as customers transition to time-of-use. This process will be flexible and also ensure electricity customers are provided with the right tools and information to empower them to make more informed choices about the transition to time-of-use. An important element in the customer journey to time-of-use is the Standard Smart Tariff (SST)<sup>2</sup>*

Therefore, the focus of Smart Services and the SST is not on customer switching supplier, but rather on customer behaviour. In simple terms, the EAB intends to address customer inertia in the market whereas ToU tariffs intends to address customer usage and behaviour and to prompt meaningful changes. As these are very different things, our view is that the use of the SST EAB may, at least at this point, be premature for Smart Services.

Below we set out some of our concerns with the application of the SST EAB as proposed in the consultation paper.

### **Consumption patterns for Smart Services customer may differ**

One of the key considerations in the proposed EAB is the Load Profile that ESB Networks have provided. In our view there are several issues with using this Load Profile.

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<sup>1</sup> <https://www.cru.ie/wp-content/uploads/2016/07/CER16287-Review-of-the-Suppliers-Handbook-Decision-and-Further-Consultation.pdf>

<sup>2</sup> <https://www.cru.ie/wp-content/uploads/2018/08/CRU1818164-Smart-Meter-Upgrade-Standard-Smart-Tariff-Decision-Paper-.pdf>

Firstly, the Load Profile is reflective of a 24-hour meter rather than any differentiated Time-of-Use tariffs. Therefore, this type of customer is not incentivised through differentiated tariffs to shift their energy consumption to times of lower demand.

As the requirement of Time-of-Use Tariffs mandated by the CRU require *meaningful*<sup>3</sup> differences between the tariff bands. Therefore, if these tariff bands were applied across the load profile proposed, then this would result in an artificial representation of the SST EAB, and indeed in turn represent an inaccurate representation of the tariff differences between Suppliers.

This could be construed as a misleading commercial practice, as per Section 41 of the Consumer Protection Act 2007 and, indeed, would not align with the CRU Supplier Handbook requirements for marketing to customer to be accurate and transparent.

We recognise that Smart Meter trials have been ongoing in Ireland since c. 2011 and that innovation hubs such as the Dingle Project have garnered considerable learnings in terms of customer behaviour and typical load profiles.

In theory, the consumption patterns of these customers could be used, but these also have limitations on the basis that this customer cohort is, by and large, more engaged to begin with and therefore more likely to exhibit characteristics of an engaged customer, rather than a typical smart meter customer. The sample sizes of these trials and projects may also not be statistically robust to be reflective of the entire meter population.

In summary, we believe that applying this Load Profile to an SST product misses the entire point of Smart Services, which aim to encourage customers to adapt usage patterns that benefit the network, the environment and their pockets. The blunt application of a disengaged customer Load Profile is not a positive consumer protection measure until such time as a more fit-for-purpose profile is developed.

In our view before progressing with the proposal a more typical load profile that is applicable to Smart Services customers will need to be generated and should be based on historic data or detailed forecasting and trials with variables (such as temperature, dwelling size etc) accounted for.

### **The typical consumption of 4,200 KWh may not apply to Smart Services customers**

The decision to apply 4,200 KWh as a typical consumption was last considered in 2017 by the CRU and applied from there on in the use of the EAB. At the time of the CRU Decision Paper it was stated that; *the CER will update these figures every two years going forward, implementation of these revised figures in August matches GNI and ESBN's ability to provide information on consumption data for the preceding year*<sup>4</sup>.

Considering our position on the overall application of the Load Profile, the above indicates that the CRU has committed to a review of the consumption so that it more closely follows the typical consumption of households. As the CRU will be aware, there are a number of different factors that contribute to the overall consumption figure, and that it is likely that a typical profile (even for standard 24-hour tariff products) will have changed.

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<sup>3</sup> <https://www.cru.ie/wp-content/uploads/2015/07/CER15270-Time-of-Use-Tariffs.pdf>

<sup>4</sup> <https://www.cru.ie/wp-content/uploads/2017/07/CER17042-Review-of-Typical-Consumption-Figures-Decision-Paper-1.pdf>

This includes:

- The overall dwelling size and the Building Energy Rating (BER) of the household;
- The Energy Efficiency Rating of household appliances;
- The ongoing requirements on Suppliers under the Energy Efficiency Obligation Scheme which includes retrofitting of dwellings;
- Electrification of heat as well as the infill strategy being rolled out by Gas Networks Ireland (GNI)
- Use of electricity for new purposes such as EV charging
- Export of electricity to the grid through Microgeneration<sup>5</sup>

In our view, these factors combined with changes in consumer behaviour indicate that before introducing the SST EAB a review of the typical consumption figures should be considered so that they are reflective of a changing typical usage.

## Use of the EAB for Standard vs. Smart Tariff Products

The Consultation Paper proposes that the 24-hour EAB will continue to apply as is for non-smart tariff offers.

The CRU Supplier Handbook mandates that a range of information points must be given to the customer at the sales and offer stage and also at the sign-up stage. Consumer behavior research, such as that published by the Behavioral Insights Team in the UK Department of Business, Energy and Industrial Strategy (BEIS), indicates that techniques can be used to increase customer's understanding<sup>6</sup>. Whilst that particular research was focused on key terms and conditions specifically, it is relevant to consider whether simply presenting more information to a customer equates to enhanced customer comprehension.

In the case of smart services specifically, customers will already require additional education and information. This will range from informing the customer of the tariff bands applicable, to providing half hourly data to customers<sup>7</sup>. The use of an EAB, which, as outlined above we believe is already flawed, does not add value for customers who are transitioning to ToU tariffs, as it simply adds additional and flawed information that a supplier must give to a customer.

As we have already indicated that the application of the SST EAB at this time would be premature, we suggest that in tandem with the review of the Supplier Handbook being proposed in 2020/1, a review of the overall suite of information to be given to customer could be undertaken at that time. This could include a behavioural insights analysis of customer comprehension. We strongly support the CRU's recent assertions in its compliance framework development that a move from prescribed to principles-based reviews of the Supplier Handbook may be needed in future. To support this, we believe that

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<sup>5</sup> Some of these drivers are referred to in [ESB Networks 2027](#)

<sup>6</sup> [Behavioural Insights Team Paper](#)

<sup>7</sup> As per Section 9 of the Supplier Handbook 2019

this also requires a mindset from a focus on customer information to customer comprehension so that customer can make informed choices as to what is best for their needs.

## Next steps

We would welcome the opportunity to discuss this consultation response with the CRU and welcome ongoing engagement to ensure customer choice in a competitive market at the core of the CRU's consumer protection work-streams.