

# Sustainability Committee

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Evidence from the Energy Retail Association to Inquiry into Carbon Reduction in Wales

## Section 1: Purpose

Evidence from the Energy Retail Association to Inquiry into Carbon Reduction in Wales for Committee meeting Thursday 18th October 2007

## Section 2: Background

### The Energy Retail Association (ERA)

The Energy Retail Association (ERA), was formed in 2003 and represents Britain's electricity and gas suppliers in the domestic market. All the main energy suppliers operating in the domestic market in Great Britain are members of the ERA - these are British Gas, E.on Powergen, ScottishPower, EDF Energy, Scottish and Southern Energy and RWE npower. The Managing Directors of these six companies make up the Board of the ERA who work closely with the Chief Executive Duncan Sedgwick. The Board is chaired by Willie MacDiarmid, Managing Director, Energy Retail at ScottishPower.

In the four years of its existence the ERA has focused on continually finding ways to improve customers' experiences with their electricity and gas suppliers. This means that we lead on issues such as:

Delivering energy efficiency schemes

Tackling fuel poverty and protecting vulnerable customers

Ensuring good sales practice

Developing hassle-free systems for changing electricity or gas supplier

Developing industry standards for customer billing

Preventing debt and disconnections.

In pursuance of these aims the ERA works closely with government, NGOs, charities and other organisations to ensure a coordinated approach to dealing with the key issues affecting our industry and the British consumer. The main responsibility for regulation of the energy supply industry is non-devolved and resides with Whitehall.

We have recently started working more closely with the Welsh Assembly Government and we are aware of the Welsh Assembly Government's Energy Route Map, Action Plan, the Assembly's Sustainability Statutory Requirement, the Microgeneration Strategy and also some of the specific debates that have been conducted in the Assembly. Not least among these is the debate on 6<sup>th</sup> December 2006 on Climate Change when the unanimous vote at the end included support for the clause on "recognising the potential for Smart Meters to increase energy efficiency, and working with energy suppliers to introduce a Welsh pilot study."

## Policy Context

These strategies and policy developments in Wales are, in some cases, ahead of those taking place elsewhere. ERA is very aware of the additional policy context at UK and EU levels.

The EU Energy End-use Efficiency and Energy Services Directive, which was agreed in December 2005, requires Member States to develop national action plans for achieving a one per cent energy saving target from end-users. The UK government has held consultations and produced the Energy White Paper in July 2007 to meet this need. In order to comply with the EU Energy Services Directorate, the UK government is required to publish a national action plan by May 2008. This Directive also contains provisions for time-of-use meters to be installed on a new and replacement basis where it is cost effective to do so; plans for this measure must be brought into UK law by 2008. The Department for Environment, Food and Rural Affairs (DEFRA) have the policy lead on bringing the provisions of the Directive into UK law.

The Energy White Paper produced by the UK Department of Business, Enterprise and Regulatory Reform (BERR) outlined three core billing and metering activities that would heighten awareness of energy use and reduce consumption:

1. Information on bills: to promote awareness of domestic energy use through a requirement on energy suppliers to present consumption data on consumers' bills to allow them to compare different periods of energy consumption;
2. Information on display: to promote awareness of domestic energy use through a requirement to provide certain customers with real-time display units so that they can see in real time, and in a way relevant to them, how much energy they are consuming and what it is costing; and
3. Immediate delivery: to ensure that business customers in those sectors of the market where it was now cost-effective would receive

Smart Meters over the next five years.

The ERA fully supports these objectives of putting customers in the driving seat but we believe that this can only happen if the UK government makes an unambiguous commitment to Smart Meters in its Energy Bill which will follow its current Energy White Paper.

### **Energy Retail Industry work on domestic energy efficiency**

There is an overlap between the objective of reducing carbon emissions from domestic properties and the objective of improving domestic energy efficiency. But the two are not the same. It is particularly important when developing policies to reduce fuel poverty that the two objectives are not confused. A case in point of such possible confusion is the new proposals from DEFRA on the Carbon Emissions Reduction Target (CERT) between April 2008 and March 2011. In these proposals, energy efficiency measures, such as insulation and heating, are intended to meet carbon reduction targets rather than the energy saving targets. The ERA believes that energy savings targets are more effectively addressed as part of the supply companies' Energy Efficiency Commitment (EEC). From the suppliers' perspective, CERT and its associated measures, is the primary carbon reduction scheme.

For the Department for the Environment, Food and Rural Affairs (DEFRA), the target for reduction of carbon emissions is 42MtC (tonnes of carbon) between 2008-11. The main concern of the ERA is the high proportion that must be achieved from 'priority group' households, which is currently proposed as 40%. ERA does not believe it is possible to achieve this target through cost effective measures.

If more expensive measures are used in order to meet the UK government's target, this is likely to have the unintended consequence of driving costs higher and, so a measure intended to help low income customers, may push them further into fuel poverty and so increase the numbers in fuel poverty in the next three years.

The key carbon saving measure under CERT is cavity wall insulation in the priority group. Evidence produced jointly by the ERA and the National Insulation Association (NIA) clearly demonstrates that there is not sufficient potential for a 40% priority group target. The ERA is currently in discussion with DEFRA officials with the aim of agreeing a more realistic target.

The ERA is also working with DEFRA, and also the Department of Work and Pensions (DWP), to identify better focused methods for targeting fuel poor households. At the moment 30-48% of fuel poor households are not classified as

part of the priority group and the majority of the priority group are not fuel poor.

### **Smart Meters**

The Energy Retail Association, and our member companies, are firmly of the view that the energy efficiency and carbon reduction objectives of the EU, the UK government and, indeed the Welsh Government, are unlikely to be achieved with the current technological and administrative arrangements for metering and billing. Available new technology needs to be applied to the interface between customer and supplier and in so doing put the customer in control of their own energy usage and give them the information on which to base this usage.

Smart Meters are the next generation of electricity and gas meters. They will bring about the end of estimated bills and meter readings, and provide customers and energy suppliers with accurate information on the amount of electricity and gas being used. They will also provide the platform for the development of a much greater choice in energy tariffs and services for all homes.

Smart Meters empower customers to make choices on how much energy they choose to use. Suppliers will install two-way communication systems that display accurate real-time information on energy use in the home to the consumer and back to the energy supplier. In addition, Smart Meters enable:

Flexible tariffs that measure consumption over set time periods

Automatic and actual meter readings that will bring an end to estimated bills

Capability for selling energy back to the supplier which will facilitate microgeneration technology (e.g. solar panels or wind turbines)

The same electricity and gas meters to be used for all customers, whether they are pre-payment or credit

Improved accuracy of forecasting energy demand at different times of the day.

The ERA believes that in order to ensure there is a successful delivery programme for Smart Meters it is essential that the planning stages are as thorough and smooth as possible. The ERA recently published the Smart Meter Operational Framework (SMOF), and distributed it to stakeholders with an interest in the operation of Smart Meters. This included officials of the Welsh Government. The SMOF outlines the technical details of how Smart Meters will work, and how they will be distributed. The industry is dedicated to bringing Smart Meters for both electricity and gas into households across England, Scotland and Wales.

The industry will require an ambitious home visit programme. With 45 million domestic meters throughout GB - to install, the roll-out of Smart Meters promises to be more extensive than other technological and social transformations such as decimalisation, the provision of North Sea gas to homes and, more recently, the introduction of chip and pin. If given the necessary mandate by government, the industry will invest in introducing Smart Meters, and aim to ensure that after a 10 year roll-out plan, every home in Wales and the rest of Britain has a more accurate method of energy billing.

The industry is very keen to begin this lengthy and complex process. However, our industry cannot introduce Smart Meters without a mandate from government to do so, because of statutory requirements concerning competition. Only with a mandate from government can we work with the regulator to ensure that the roll-out of Smart Meters is implemented as efficiently and cost-effectively as possible, and that reductions in carbon emissions are realised.

### **The competitive market and role of the Regulator**

The regulator for the energy supply industry is Ofgem. Ofgem has concluded that it should continue to rely on competition to deliver innovation, whilst seeking to remove any barriers to innovation. Ofgem does not intend that smart metering should be compulsorily rolled out, either through abandoning the competitive market in metering or through an obligation on suppliers. Ofgem has recognised that customers could make their own arrangements, but has accepted that few, particularly in the domestic market, would choose to do so. It has also rejected the concept of requiring customers to make their own innovative metering arrangements.

Another significant issue is that, because of the competitive market in metering, a range of technologies without common operability might be used by different suppliers and metering companies. In a competitive supply market, there is a risk that, where customers changed supplier, their new supplier would not wish to use the existing "smart" meter, which would become of little value. Ofgem and the Government recognise that such stranding of assets is a potential barrier to innovative metering, and Ofgem is facilitating discussion with the industry with a view to promoting agreed arrangements on inter-operability.

### **Ofgem trials of Smart Meters**

Ofgem is currently conducting trials of Smart Meters in various part of the UK,

including Wales. In launching the trials in July 2007 Ofgem stated: "Energy regulator Ofgem is to administer the first large-scale trials in Britain of advanced energy meters which could help cut household energy consumption. Under a £10 million Government programme, match-funded by four energy suppliers, meters will be fitted in around 15,000 British homes to provide feedback on whether they help customers improve household energy efficiency. A further 8,000 homes will receive standalone display units showing energy use in pounds and pence. The trials - which will be administered by Ofgem over the next two years - will test how customers react to these new devices and to clearer, more frequent energy bills. To minimise barriers to the take up of smart meters, Ofgem has formed an industry-wide group to agree minimum standards for the meters and look at what needs to change in industry rules to let the industry use them more widely. Ofgem will also provide six-monthly reports to government on the trials, and a final report once the trials are completed in 2010."

The four energy companies taking part in the trials are EDF Energy, E.on UK, Scottish & Southern Energy and Scottish Power. These companies were selected after a tender process held in 2006. As part of delivering their trial information, these four companies will be using six different metering/feedback device companies, four IT specialist companies, two charities and three universities. Ofgem has appointed the Centre for Sustainable Energy with the Universities of Oxford and Surrey to evaluate results and compare findings from the different approaches to energy saving being trialed. Each participating company is carrying out a range of trials to test out consumer response to different interventions including a combination of some or all of the following: improved billing (with and without Smart Meters), energy efficiency information, community engagement, visual display units and Smart Meters.

In answer to an Assembly Question tabled by Mick Bates AM on 25th September 2007, Jane Davidson AM, Welsh Government Minister for Environment, Sustainability and Housing, explained that in Wales: "officials from the Welsh Assembly Government have been in discussion with Scottish and Southern Energy about a pilot in Wales. A pilot will be run in the South Wales area and will trial a range of approaches and technologies. Options trialed will include: improved billing information, installation of display meters, installation of Smart Meters with remote reading (i.e. no visual display for customers), and installation of smart meters with the visual display. There will also be a group of customers selected for control purposes. It is anticipated that all the Smart Meters will have been installed by January 2008. A significant amount of data will be collected from the pilot, which will consider aspects such as cost, effectiveness as well as savings identified and any changes in consumer behaviour."

The ERA welcomes the opportunity presented by these trials, especially in raising customer awareness of the benefits of Smart Meters. But we do hope that the trials do not themselves cause delay to the process of government providing a mandate to the industry to start the complex work required to start the implementation of Smart Meters.

### **Section 3: Summary**

Introduction of Smart Meters is a single decision that can have enormous impact on customers' control over their use of energy and so assist in customers' awareness of energy usage and subsequent reduction in domestic use of energy and in carbon emissions.

Widespread use of Smart Meters will encourage the wider use of microgeneration, in line with WAG and National Assembly policy, as it will automatically enable export of energy from domestic premises

Companies in the energy supply industry have a statutory obligation to compete, and so a mandate from government is required to introduce Smart Metering across Britain

The size of the exercise required to introduce Smart Meters would be substantial and a clear advantage of this would be the opportunity for a customers' information and education campaign on how energy is used in the home

The process of metering and billing of domestic energy is currently cumbersome and often produces inaccurate, estimated bills for

customers. This is unsatisfactory, as is the current payment collection process, which is also expensive for the energy supply companies to operate. Smart Meters will change all of this

#### **Section 4: Recommendations**

##### **What can the National Assembly for Wales do?**

Despite the main responsibility lying with Whitehall, there are a range of actions that could be taken by the National Assembly for Wales to contribute to the process of modernising domestic energy metering. These include:

Contribute to the current Energy White Paper consultation

Encourage UK Government to include a mandate to the energy supply industry to introduce Smart Meters in legislation in the near future

Not get distracted by Electricity Display Devices

Work with the industry to educate customers about the benefits of Smart Meters in order to facilitate a smooth roll out

Keep the momentum up in the debate to keep innovation moving forward.

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