

Gemserv Response to the SEM “Retail Tariff Structure Review” Consultation

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1. Introduction

Gemserv is pleased to response to your consultation relating to the PES Retail Tariff Structure.

1.1 About Gemserv

Gemserv has its origins in the introduction of competition in electricity in the late nineties, where it developed the governance to support the GB wide customer switching process. To enable the inherent knowledge and expertise to be applied to other sectors, Gemserv was established in 2002 with the goal of making markets work effectively and with integrity. We provide market design and governance, standard/accreditation schemes, assurance and programme management services predominantly in the energy, environment and water sectors.

Gemserv only work at a market level (e.g. industry bodies, regulators and Government departments), rather than for individual market participants. For example, we currently manage the Master Registration Agreement (MRA), governing the GB electricity customer switching arrangements, the Independent Gas Transporters Uniform Network Code (iGT UNC), and the governance and central systems supporting the competitive water market in Scotland.

1.2 General comments

We believe that the establishment of effective competition within the retail side of utilities is the best method to deliver customer benefits from this part of the supply chain. Further, any harmonisation between the two jurisdictions will act to lower any barriers to market entry across the “All Island” geographic area. As such, we would endorse proposals contained in the consultation relating to harmonisation. In addition, Gemserv believe that further harmonisation between the jurisdictions would further improve competitive forces and, hence, customer benefits. The further harmonisation should include:

- An All Island market communications framework;
- An All Island retail governance framework; and
- All Island market entry and assurance requirements.

The establishment of these would allow competition to more easily penetrate between jurisdictions and hence reduce the requirement for regulated retail tariffs and regulation surrounding retail

operations. As stated in the legislation, the regulators still have the power to audit and investigate and market manipulation under competition laws that will allow them to mitigate any market distortions that may arise as a result of dominant market position.

We have approached the consultation questions from a holistic market perspective rather than representing partisan views. As a result there will be some questions where we believe it is not appropriate for Gemserv to respond or, if we have done so, we have explored the key issues to be considered rather than promoting an individual view.

We are happy for this document to be placed on the website. If you would like to discuss any part of this response please contact Alec Thompson on the contact details provided.

2. Responses to Specific Questions

2.1 Question 1

To our knowledge all details of have been covered surrounding retail tariffs and underlying cost allocation within the consultation.

2.2 Question 3

Yes, all of the categories suggested in these proposals seem sensible.

2.3 Question 4

Yes, we believe the introduction of an EFA style CfD would provide the market with a further liquidity. This has proven to be an effective market mechanism in GB electricity industry.

2.4 Question 5

Global aggregation would enable the PES and new entrants to be dealt with on the same basis by removing of the requirement to support energy differencing, which is a PES obligation. As such, we see global aggregation as key to establishing full unsupported retail competition by allowing the “residual energy” to be dealt with separately to the PES customer energy and allocated on an equitable basis, as determined in the market rules.

Further consideration of the allocation of the residual energy between customer types (e.g. interval and non-interval metered) resulting from settlement inaccuracy and physical losses could also be considered here to ensure that the residual energy is dealt with effectively.

2.5 Question 6

Yes, the creation of a common code of metering practice between the two jurisdictions should assist the harmonisation of tariff structures going forward. In addition, these would also facilitate further competition across the two jurisdictions as retailers would be able to reduce the administrative burden of operating under two different metering practice regimes. By having common codes this

standardisation will allow a common understanding of expectations and requirements for interoperation in the “All Island” geographic area.

2.6 Question 7

Yes, the use of common profiles for class demands in both jurisdictions would help to a certain degree as they would be beneficial in harmonising the NI and the RoI areas. Similarly to question 6, these would also facilitate further competition across the two jurisdictions as retailers would be able to reduce the administrative burden of operating under two different profile regimes. By having common profiles this standardisation will allow a common understanding of expectations and requirements for interoperation in the “All Island” geographic area.

2.7 Question 8

The further segmentation of the SME sector would allow the PES tariffs to become more reflective of these segments. However, whether they will encourage wider competition is debateable as this would be more dependent on the retail offering that the PES makes and, as a result, whether potential competitors were able to provide the customer with perceived better service offerings.

2.8 Question 9

As above in question 6, Gemserv believe that harmonisation of any/all elements in the two jurisdictions will promote further retail competition for Ireland. Harmonisation will allow retailers to enter either jurisdiction without the requirement to produce and model costs for the individual jurisdictions separately, lower the entry barriers and operating costs for “All Island” retail operations.

However, harmonisation of use of system charges might not be the most accurate mechanism, as simplicity provides a lower barrier to entry it may introduce smearing and reduce cost reflectiveness of these charges. In E&W there were some quite big variations in the bases of use of system charging – some charging for reactive energy (kVArh), some charging for capacity (kVA), some charging for both and others just levying a max demand (kWh) charge). So if one benefit of competition is costs reflectiveness, then no, harmonisation of use of system charges may not be the right thing to do.

The ability to understand costs associated with distribution voltage and location price signalling would also better facilitate appropriate distributed generation build.

2.9 Question 10

Yes, the separation of charges for the provision of energy, and the use of the transmission and distribution networks would create an opportunity for customers to be offered more choice. The better understood the wholesale cost structure is the more likely that a customer can negotiate a tariff that better suits them under their particular circumstances. This arrangement is also likely to encourage further innovation by retailer in their service offerings.

2.10 Question 13

We broadly support the PES being encouraged to offer further tariff structures with more time of use rates that reflect the underlying movement in wholesale costs.

The use of either maximum demand charges and/or block kWh structure is not a simple choice though as the mechanism used may, or may not, be more cost reflective depending on the customer type. A balance between the replacement of existing tariffs, introduction of a new block kWh structure and introduction of smart metering may need further consideration. Block tariffs are typically formulated to reduce cost with increasing consumption which may be counter to energy efficiency incentives/ policy. There may a requirement for the some block tariff structures to incorporate a cost increase at a point of consumption to stimulate energy efficiency for certain customer types.

Further, time of use tariffs would hopefully provide financial signals for load management, which could be structured to manage demand profiles (reduce demand volatility/ peakiness) which in turn could lead to more efficient scheduling of plant at lower cost.

2.11 Question 14

The publication of a common Tariff Methodology Statement that would apply to each PES would allow competitor retailers operating in both jurisdictions to more easily analyse and compete by allowing them a common comparison model based on the tariff methodology statement.

2.12 Question 16

Gemserv broadly agrees that the conclusions presented are reasonable and would help to promote consumer understanding and further competition in both jurisdictions.