



EAI Response to UR Consultation on the implementation of the Retail Energy Market Monitoring (REMM) framework

Electricity Association of Ireland

Retail Working Group

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The Electricity Association of Ireland (EAI) is the trade association for the electricity industry on the island of Ireland, including generation, supply and distribution system operators. It is the local member of Eurelectric, the sector association representing the electricity industry at European level.

EAI aims to contribute to the development of a sustainable and competitive electricity market on the island of Ireland. We believe this will be achieved through cost-reflective pricing and a stable investment environment within a framework of best-practice regulatory governance.

Introduction

The EAI Retail Working Group welcomes the opportunity to respond to the Utility Regulator's (UR's) consultation on the implementation of the Retail Energy Market Monitoring (REMM) framework, in Northern Ireland.

Retail Market Monitoring is an area the EAI has witnessed developing in both GB and the Republic of Ireland. The EAI supports the principle of a well-informed regulator, monitoring an actively competitive market.

The REMM project is derived from the UR's obligations under the Third Energy Package. The UR should however be mindful that at a principle level, the Third Package is designed to facilitate a competitive market in electricity and gas across the European Union. The requirements on the UR could not be clearer; the UR must work towards developing a competitive market while ensuring the protection of vulnerable customers.

Key concerns of suppliers

The EAI does not propose to provide comment on specific metrics within the consultation document. Individual supplier members will comment in more detail in their respective responses. The EAI response is a high level summary of the key concerns of members as outlined below.

1. Regulatory Burden

The UR must be mindful of the regulatory burden and ultimately the cost of any framework introduced. Whilst each metric in isolation may appear both reasonable and relatively minor, the cumulative impact of multiple metrics disaggregated to numerous sub-categories must not be overlooked. The UR should also be cognisant of the additional reporting requirements which already exist in suppliers' licences and the proposed reporting obligations to be implemented via the UR's forthcoming review of the Codes of Practice.

In determining the reporting metrics the UR must ensure that the requirements are meaningful, implementable and not overly burdensome on suppliers to implement. Suppliers will look to automate reporting functionality and the development of such a solution will have a lead time.

It will also be important that the UR is consistent in the request itself to ensure efficient implementation. Constant changes in metrics will lead to confusion and will reduce the ability to make comparisons over time.

2. Common Services Data Provision

To reduce some of the burden on suppliers, and to ensure consistency in interpretation; the EAI would encourage the UR to utilise the common services model as much as possible by centrally reporting.

The respective network companies have access to significant volumes of data, act as a central processing hub and undertake fieldwork on behalf of suppliers; it is therefore appropriate for many of the submissions to be made by those companies on behalf of the

market. The EAI welcomes the proposal for the UR to utilise the network company as the reporting entity for many of the defined metrics and supports their further involvement wherever possible.

3. Indicator clarity

The EAI welcomes the attempts made by the UR to provide as much clarity of definition and process as possible. The UR has clearly responded to member feedback and the detail contained within the consultation paper is helpful.

The UR should be mindful however that the level of detailed information requested and the level of disaggregation of consumer groups represents a significant burden on suppliers and will lead to considerable impact on supplier systems, staffing and cost. At this time, given the favourable assessment of retail market functioning set out in the Cornwall Report, members cannot see the justification or benefit of such burdensome requirements.

4. Publication

The publication of the REMM indicators will expose both the UR and suppliers to increased levels of scrutiny. While the EAI welcomes such transparency, it will be important for the UR to ensure that any publication is accompanied by analysis and commentary. The EAI also considers it appropriate to defer publication of indicators until calibration of information has been completed to ensure that suppliers are all reporting in the same fashion. This will ensure the UR does not create an unintentional bias in information published if suppliers' metrics are calculated differently.

The UR should carefully consider the information provided, ensure consistency, understand the prevailing market conditions and underlying drivers to ensure publications do not cause confusion amongst the public. The central justification for the REMM project is to ensure that the UR is adequately monitoring the market.

5. Margin

The UR has correctly characterised the margin requirement as the “*area of greatest concern for suppliers*”. The UR has clearly recognised the difficulties experienced in other jurisdictions and member feedback in this area. The EAI welcomes the Annex 3 methodology paper which the UR commissioned from Cornwall Energy.

The supplier retail margin indicators are particularly problematic as they require detailed allocations across a large number of line items broken down by tariff group. Suppliers costs are not incurred on this basis so detailed cost allocation methodologies will need to be developed. Different methodologies adopted across the industry are likely to render a comparison of categories across the industry or in aggregate as meaningless. While the paper provided by Cornwall Energy provides much needed clarity, it will be important for the UR and suppliers to work through the test phases in detail.

It will also be important for the UR to gather margin information over a significant time period before reaching any conclusions. Seasonality, long term hedging, spot price fuel movements, contracting rounds and marketing campaigns will all cause fluctuations in supplier margins. Only by observing trends over time will the UR be in a position to fully comment on or understand the margin analysis.

EAI members also have concerns with regard to the quarterly submission requirement. Member organisations will have financing arrangements that preclude the submission of what are in effect financial results, prior to their official announcements. There are absolute regulations in this area and the UR's proposed timetable may be in breach. The EAI would welcome the UR revisiting this aspect.

Conclusion

In this response, EAI has made proposals to ensure that the implementation of the EU requirement to monitor the effectiveness of competition in retail electricity and gas markets is pursued in a practical manner which delivers benefits to customers and minimises the administrative burden on suppliers. It is important that the reporting metrics are understood in a consistent manner across the industry to ensure that any results have analytical value.

Our members are available to discuss the issue of retail market monitoring and this response as part of the next steps in this process.



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