

‘Energy Den Vision’ for I-Gov Conference.
21 May 2014

**Low Carbon ‘Pull’ – is it time to rethink
what electricity retail competition is for ?**

**Judith Ward.
Sustainability First.**

(stress *personal* reflections).

1. Electricity retail competition has shown us its limits :
 - On affordability & retail price ; as a stimulus for new investment; on innovation : on ‘customer-pull’ for low carbon.
 - Yet we persist in near-universal accord that competition can deliver *all of these things at one & the same time*.
2. My basic question, for the transition period to low-carbon, is : what *purpose* does electricity retail competition truly serve?
 - Will it achieve affordability (well, possibly)
 - Will it deliver investment, innovation or customer pull for low-carbon ?

Competition is a *means* & not an *end*

The demand-side & low carbon innovation may be very well-suited to retail competition.

But, standard averaged p/kWh – so ‘plain vanilla’ electricity supply – is arguably increasingly less so.

Here’s why.

By the early 2020’s, average wholesale prices look set to be *artificially* low for much of the year. Prices detach more & more from underlying long-run industry costs.

At the same time, very importantly, *alongside* this :

- **Over one-half** of the end-electricity bill may be due to fixed cost elements by 2020 : for networks (23%) & for levies (~33%).

‘Low Carbon ‘Pull’ – is it time to rethink what electricity retail competition is for ?’

- **And, over two-thirds** of the end-electricity bill **by 2030** may be down to these same fixed costs & charges (levies ~41%).

Hence my question : for delivery of plain vanilla averaged kWh, what *really* will be left to compete for in electricity retail supply ?

Instead, lets consider how to make *both* regulation *and* competition deliver for *customers*. Lets consider price-protection for non-switching standard kWh customers – and lets create some customer & consumer ‘pull’ through strongly competitive markets for low carbon, innovation & the demand-side. That’s my ‘energy-den vision’.

First, as so much of the end electricity-price will increasingly be pre-ordained, lets encourage the regulator to look afresh at how *really* to take care of the interests of the *many of us* who – for whatever reason - do not switch.

For these customers, lets at least *think about* possible approaches to re-regulating retail prices for say the next decade - to deter ‘cost-plus’ behaviour by incumbent suppliers during the transition – especially for that significant part of the end electricity-bill which is effectively a ‘fixed-charge’.

Second, because the lion’s-share of value for future demand-side ‘flexibility’ will sit in the *wholesale & capacity* markets lets really set out to nurture a vibrant & *strongly competitive* demand-side & low-carbon supply-side. Effectively, to create a *separate retail market in flexibility*, to which all of us are free to switch. To do this, we will need to promote :

- Small suppliers.
- Local suppliers
- Suppliers who offer ToU tariffs, PV tariffs, Energy Services, Smart Services
- New entrants from other sectors.
- And lets encourage the *large* suppliers to compete in this non-regulated market place. But, with new, separate & ring-fenced supply arms.

Market actors who innovate should be supported, confident of returns which match the commercial risks they take : able to compete *with gusto* to bring us smart, creative low-carbon demand-side offers. They could also be freed of some licence duties (but not all). Certain customers still need safeguards.

My ‘energy-den vision’ is to create *true customer ‘pull’* - by active support of competitive flexibility *retail* markets in low-carbon energy supply, storage, smart energy and the demand-side.

Lets tilt the playing field in favour of these actors. Let them create a customer ‘buzz’ for all manner of low-carbon products and smart services. There will be winners and losers – suppliers & customers (& that’s why we have competition safeguards). But we need to develop and grow a retail market more suited to energy entrepreneurs – who in turn can catalyse customer-driven innovation & change.

‘Low Carbon ‘Pull’ – is it time to rethink what electricity retail competition is for ?’

At the same time, lets ensure that *the rest of us* get a good deal *through regulation*. Put simply, incumbent suppliers would face a managed decline of their retail business through tough price-regulation of plain kWh retail – *unless they innovate*.

And remember too. With smart meters, plus initial control of the ‘on-off’ switch for appliance-control, plus *all* that bespoke usage data about their customers – *every* supplier – *both large and small* - has been handed the *technical* tools to create an active demand-side - be that at the level of the national electricity system : or at the local level.

Well you say. Suppliers may have the technical tools - but will they use them ?

Arguably yes. *If the commercial drivers are right*. With its smarter markets programme, Ofgem is starting to drive suppliers down this road. Take together : low wind prices & volatility, a high cash-out price, half-hourly settlement, more separation of generation and supply. By the early 2020’s suppliers will face both more and higher-cost risks than now in retail. It is *just* possible that this may tip them towards more *commercial* interest in the demand-side - to offset some of these new risks. In particular, via **firm automated** control of domestic household load. But, a loud warning here : as well as incentives for micro-gen & electric cars, we will also need to make household-level thermal storage (electric water heating, storage heaters) – **much much** more attractive to customers than today. But, take a look at some LCNF projects to know that this is not just fantasy.

Two other pieces in this jigsaw :

(1) A strong confident regulator : with the humility to accept that competition may *not* be the answer to every problem. And, astute enough to know that the *over-arching priority* is to look after the majority of customers – and thereby to also enable a **credible & smooth** *customer transition* to low-carbon – and –

(2) A strong consumer voice : emasculated by successive governments over many years. To ensure in the transition to low-carbon - that customers and consumers are the clear *winners* - & not simply unwitting ‘cash-cows’.

Today, I have just floated one possible option for the evolution of demand-side retail electricity markets. There are many other alternative models – equally able to both protect customers who need it – while at the same time allowing demand-side innovation to flourish.

So, lets at least be sufficiently open-minded to ‘put on the table’ some questions and principles for the evolution of retail competition for the low-carbon transition : (1) to *truly* protect today’s standard kWh electricity customers – and at the same time (2) to drive new competitive retail markets in low carbon, flexibility & the demand-side – and (3) to start to create some genuine customer ‘pull’.

JW
21 May 2014

‘Low Carbon ‘Pull’ – is it time to rethink what electricity retail competition is for ?’