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The week in review

Monday 04/02—Centrica withdraws from plans to partner EDF Energy in developing new nuclear projects in the UK. Prime minister David Cameron at the Energy Efficiency Mission Launch says energy efficiency is crucial to economic growth as well as environmental objectives. The public accounts select committee says financial risks associated with cleaning up the Sellafield nuclear waste site are being almost exclusively borne by taxpayers.

Tuesday 05/02—The government tables amendments to the *Energy Bill* that seeks to ensure consumers are placed on the cheapest tariff available to them. EDF chief executive Henry Proglio says the company will not pursue nuclear power projects in the UK unless the government ensures they are profitable. DECC stats show greenhouse gas emissions fell by 7% in 2011. Using renewable energy to generate electricity is supported by 78% of the UK public, according to the department's latest attitudes tracker. The European Commission confirms the UK's £600mn of public funding to support the Green Deal is in line with EU state aid rules. A new report by the Adam Smith Institute calls the UK's plans to generate 15% of electricity from offshore wind by 2020 "unachievable".

Wednesday 06/02—Greencoat UK Wind announces its intention to raise £205mn on the London Stock Exchange. SSE agrees to sell four of its windfarms to Greencoat Capital, and will invest up to £43mn of the deal's cash consideration into the fund. Nationwide Building Society launches a loan designed exclusively for customers seeking to make home energy efficiency improvements. The European wind industry faces a "severe" skills shortage of around 5,500 qualified staff per year, according to the EU's Wind Technology Platform.

Thursday 07/02—Three major energy brokers launch their own sets of indices covering natural gas trades in the UK and Europe, after concerns are raised about the accuracy of prices being reported in the market. Climate change minister Greg Barker launches a new guide for solar photovoltaic installations. The Scottish government confirms wood-fuelled biomass plants with capacity over 15MW will only receive support under the Renewables Obligation if they operate as combined heat and power stations. Suffolk Coastal District Council backs EDF Energy's proposals to build a new nuclear power plant at Sizewell C.

Friday 08/02—The government gives permission for Ecotricity to construct a 66MW windfarm in Lincolnshire. BP reports an underlying replacement cost profit of $17.6bn in 2012—down from $21.7bn the year before. The value of the global carbon market fell to €62bn in 2012—down 35% on 2011—according to new research by Point Carbon.

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Household switching: Things have changed

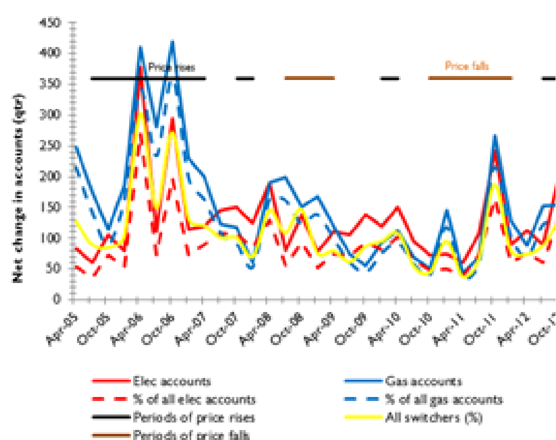
Given what seems like ever-rising bills, switching is often touted as a key mechanism in keeping the energy market competitive. Though the emphasis in policy and regulation has moved on from just using switching as a measure of market health, it is still a very important parameter. Switching in consumer energy markets around the world has generally been on a rising trend, with the implication that engagement is increasing. But the recent decline in switching in Great Britain is an exception to that trend and has caused some soul searching as to whether consumers are giving up on competition.

In the week that the government tabled amendments to the *Energy Bill* on mandating suppliers to make low-priced tariffs available to consumers, this *Energy perspective* looks at some recent work on the reasons behind the decline here in switching and discuss how concerned we should be by it.

Long ago, far away

Recent surveys from both DECC and Ofgem show that switching rates are down by a quarter from four years ago. According to DECC, in 2008 20% of consumers reported switching energy companies, compared to 15% in 2011-12. Ofgem's figuresshow that last year just 13% of gas customers and 14% of electricity customers switched. Our own data is summarised in the table below. In essence all surveys say GB energy is still an active retail market, yet switching levels have clearly been on a downward track. Why is this the case?

UK net switching rates for gas and electricity



Last year Morgan Stanley's annual *Energy Supply Survey* (*ES324, p2-3, 16/04/2012*) found switching remained a positive experience for most; the number of customers who said they had switched, had saved money and would do so again was constant at 65%. But this report was collated using an online method so it is possible that it is providing the views of one segment of the market.

The received wisdom used to be that once consumers switch and make savings that they will become repeat switchers. But a recent report from Consumer Focus concluded differently that switching once does not mean consumers become permanently engaged with the market. In *Switched On* Consumer Focus claimed that the current switching rate is just under 15%.

Sittin' on top of the world'

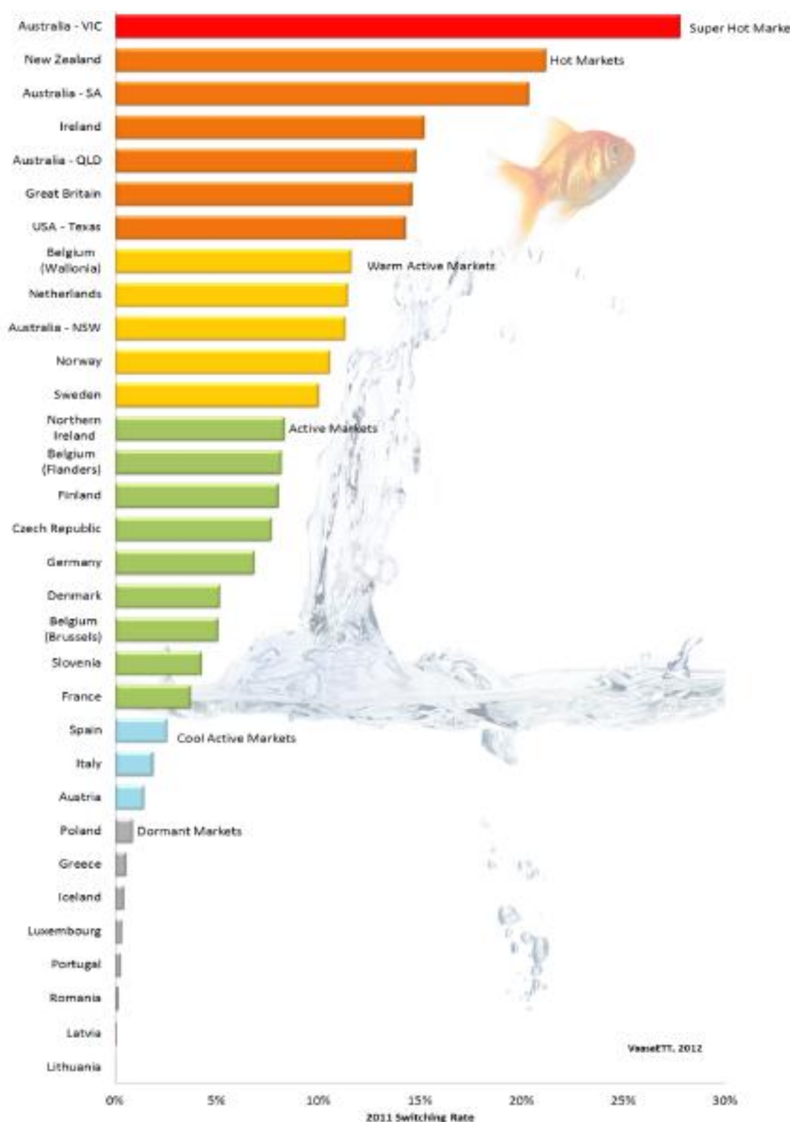
A second report, this time by consultancy VaasaETT, seemed to confirm these findings. In its latest *World Energy Retail Market Rankings* report GB slipped to sixth place as it saw "substantially less activity than ever before". VaasaETT decided that GB can no longer be described as a "hot market"—defined as a market with an annual switching rate of 15% or higher. See table over page for current standings.

Both Consumer Focus and VaasaETT suggested that the underlying cause for this decline has been a persistent overwhelming general lack of trust in the industry, which has been fuelled by the media, consumer groups and even (on some occasions) Ofgem. But perhaps more worryingly concerns were also raised that the switching process itself may be at fault.

According to Consumer Focus the decline in switching activity has come about because consumers are becoming less engaged with markets. This is not confined to energy: the telecommunication and banking sectors are seeing a similar trend. There are a number of root causes for this trend, but the most widely cited are customer confusion due to complexity, distrust of pricing, and a view that energy suppliers act as a pack when pricing their tariffs.

The energy and climate change select committee recently investigated this very issue, taking evidence on the extent to which consumers are willing to actively participate in markets and whether consumers are equipped with the right skills and knowledge to do so.

Global levels of switching activity 2011



Source: VaasaETT

The select committee report, published late last year, said Ofgem must improve wholesale liquidity if consumers are to take a more active interest in energy markets.

Furthermore, customers would not engage more with the energy market unless they had more trust in the energy suppliers, the committee argued. But it warned that achieving this would also necessitate a greater level of transparency around energy companies' profits and pricing methodologies.

Changing of the guard

Delving a little deeper Consumer Focus identified number of issues with the switching process, which they said harmed consumers' perceptions and experiences of switching, and therefore decrease consumer engagement. Although it found eight out of 10 of the consumers surveyed were broadly satisfied with their switching process, more than a quarter (26%) said they would not consider switching again.

Most worryingly 43% of vulnerable or poorer households said they would not consider switching between suppliers in the future due to problems experienced during the change-over process.

The most common problems cited by consumers were closing the bill (46%) from their old supplier, delays in the process (29%) or receiving poor customer service (22%). Of those who had tried to switch, 7% said they cancelled.

In contrast VaasaETT said that the decline in switching activity seen last year in the UK was a result of the recent ending of door-to-door sales activity—all of the Big Six had discontinued door-to-door sales as of autumn 2012. Although it noted consumer disengagement has played a part, in its view the fact that consumers are now presented with far fewer opportunities to switch is a more important factor.

And this is something that Morgan Stanley predicted in its report: it said, although door-step selling will become less important as online selling becomes more popular, calling a halt would probably cut the churn rate from 15% to something much lower.

VaasaETT also claimed that price changes are becoming less well correlated with switching levels than before the end of door-to-door selling, although it was too early to confirm this. In addition it suggested retailer margins may be increasing in line with the fall-off in both door-to-door selling and switching levels in the market (to which we would add the limitations imposed by SLC25A).

This may or may not be cause and effect, but an important new dynamic is the extent to which customers are doing deals with their existing suppliers and to what extent this counts as quality engagement in the market. Anecdotal evidence we have seen from some of the Big Six is that the proportion of consumers doing this at least matches switching proportions.

Beyond the horizon

To try to ensure consumers get a good deal Ofgem is proposing a raft of changes to provide clearer and more comparable information to customers. Moves to ensure a better deal for customers have also been included in the *Energy Bill*, through an amendment introduced by the government during last week's committee stage that will ensure consumers are placed on the cheapest tariff available to them (*this issue, p5*).

We have also seen an increase in collective switching schemes over the past year run by local authorities and consumer groups seeking to encourage consumers to get involved and "vote with their feet". Since the first council-run collective switching initiative was launched by South Lakeland District Council in June 2012, more than 25 local authorities have set up or are developing schemes, with more than 80 projects reported to be in the pipeline.

Last year also saw the UK's first national collective switching initiative; run by Which?, the scheme attracted more than 280,000 expressions of interest though actual switchers amounted to just one in 10. This type of programme is something the government is keen to encourage, and Ed Davey has become closely associated with this move. Accordingly, earlier this year DECC allocated £5mn of funding to local authorities to help them set up collective energy purchasing schemes through the *Cheaper Energy Together* initiative.

The Big Six have also noticed are problems to be address and over the past year we have seen efforts from them to rebuild trust and engage consumers. Most recently SSE launched a new set of customer service commitments. In October last year British Gas announced changes to increase the transparency of its complaints data, And before this we saw a commitment from E.ON UK, through its Reset Review, to examine every aspect of its relationship with our customers. SSE also invited its customers to share their views as it became the first energy supplier to establish regional customer forums. In October 2012 all the Big Six supported *Big Energy Saving Week*, organised by the government and a range of associated stakeholders, which aimed to provide consumers with advice on their energy bills.

Pressing on

Since November 2011 energy companies have been required, under the EU Third Package, to complete customer switches within five weeks (a two-week cooling-off period plus three weeks to switch). But in the first eight months after the switching time requirement came into force, the time taken to switch exceeded the specified five weeks for 16% of people—taking more than six weeks for almost 9%.

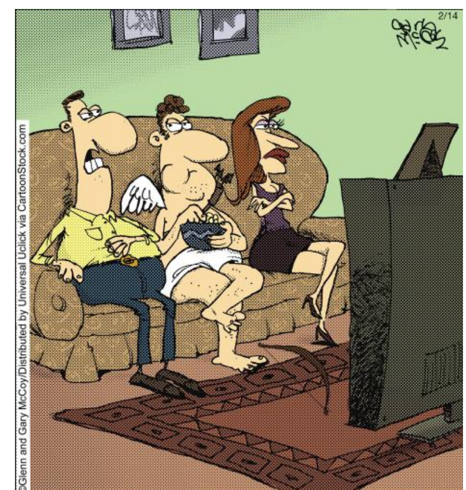
It is clear that if consumer engagement in the energy market is to be increased, further action is needed to tackle problems within the switching process itself. Getting switching right, along with addressing consumer concerns over pricing, is central to rebuilding consumer engagement in the energy market. Ofgem is keen to ensure this issue becomes part of its smarter markets work, but issues associated with the transfer process need to be tackled now, and this is a major gap in its RMR work.

Unless these two issues are tackled—barriers to customer engagement and the transfer process itself—the competitiveness of the market will continue to be questioned.

When the deal goes down

But the wild card here is the regulator's proposals to limit tariffs to four per fuel, which we believe will harm choice and tend to dampen innovation. Many industry commentators believe the proposals will result in upward pressure on prices too. And of course the government's pledge that all consumers will be put onto the cheapest tariff will also cut across incentives—after all, if this will soon be the case, why should consumers do the work themselves?

It may well be that next year's international rankings will see a further deterioration in the UK's standing and gross switching statistics will fall further. Over four years on after the first price probe, it appears we are all little wiser about what drives switching and what would represent healthy levels. What is clear is that in the meantime the issues surrounding resolution of these questions appears to have become more complex.



"I thought once you brought people together, you were supposed to drop out of the picture."

Government tables tariff reform clauses for Energy Bill

The government has tabled amendments to the *Energy Bill* that seek to ensure suppliers "give the lowest tariff to their customers". In this piece we describe them and also highlight other key developments from the House of Commons committee stage.

The new clauses (clauses 13-17) were accepted by the *Energy Bill* committee during the final session of its line-by-line scrutiny of the legislation on 7 February.

Climate change minister Greg Barker said the provisions formed a legal back-up and framework to Ofgem's *Retail Market Review* proposals, and would send an "unambiguous" signal to suppliers of the government's intent to act on tariff reform. The measures would improve the level of competition in the market and ensure customers were on the cheapest tariffs "consistent with their preferences".

Barker claimed the reforms could adapt to a "rapidly changing" market. They would be subject to a sunset clause to ensure they only remained law if still of value in 2018. The details of how the proposals would be implemented would be set out in secondary legislation, following publication of the government's response to its Autumn 2012 discussion document on tariff reform. He said the provisions sought to move consumers of poor value tariffs to the cheapest alternative, and to ensure clear information was provided to the public on savings that could be made through switching. They would also potentially bring third-party intermediaries, such as switching websites, within Ofgem's remit.

Barker was asked to clarify the meaning of prime minister David Cameron pledge in the Commons back in October to legislate to ensure consumers were on the cheapest tariff. He said Cameron was "not proposing to take someone off a fixed-term tariff against their wishes and put them onto a flexible one". Instead he had simply proposed to "cut through the blizzard of tariffs, which had escalated dramatically under the previous government".

Shadow climate change minister Luciana Berger said the new clauses appeared to rule out the possibility of the secretary of state forcing energy companies to put customers on the cheapest tariff. The government, she suggested, had changed its position—it was not, as Cameron had suggested, mandating energy companies to put people on the cheapest tariff, but was instead focusing on "intent", and what could be done to "allow" such developments.

Berger welcomed the government's proposals for energy companies to inform customers they could save money on a different tariff. But she said there were concerns from consumer groups about the accuracy of these recommendations. Ofgem's proposed Tariff Comparison Rate (TCR)—on which the government's plans were based—would not show consumers the price they would personally pay. Rather, they would be a "blended price" based on the national annual average price of a tariff at different consumption levels. Berger warned that, if consumers failed to recognise the TCR did not reliably inform them whether one tariff was cheaper than another, there was a risk of mis-buying.

Mike Weir (SNP, Angus) focused on a new clause 13, which would allow energy companies to offer customers the chance to switch to a different tariff or supply terms, rather than simply switching them unless they objected. Weir said there would be concerns about the particular form such an offer would take, given the "huge amount of paper" consumers already received from their suppliers. Automatically transferring consumers unless they decided otherwise would, Weir said, come closer to fulfilling the prime minister's tariff pledge.

On the same day, the government tabled amendments taking powers for the secretary of state to set a decarbonisation target range for the power sector in 2016 (clauses 8-11). Energy minister John Hayes argued the proposal recognised the need for a cross-government view of the UK's 2050 emissions targets, and so reflected a compromise between several departments. He assured too that the government was providing further clarity through to 2030 by issuing guidance to National Grid on an indicative range of decarbonisation scenarios for the power sector. These would be consistent with a least-cost approach to achieving the overall emissions targets.

The terms of the debate reflected one already held in the committee on 5 February, when coalition MPs voted down an amendment proposed by Alan Whitehead (Labour, Southampton Test) that would have put a decarbonisation target of 50gCO2/KWh in the Bill. Whitehead argued the government's plans would extend a period of uncertainty for investors, not only over whether a target would be set, but what it ultimately might be. He added that it was "worrying" that the

government's amendments would make the setting of any decarbonisation target before 2016 unlawful, even if a future secretary of state were to consider this a useful tool.

But Hayes responded that there were already other mechanisms in place that allowed the government to establish certainty for investors, including carbon budgets. There was a "fundamental interaction" between the electricity sector and others in the move towards decarbonisation. He particularly emphasised heat and transport, which would become increasingly dependent on electricity during the 2020s and 2030s. It would therefore be important to ensure any target was not set in isolation—a "rigid and inflexible" objective would mean the government had less chance of implementing a holistic approach to decarbonisation. But a further decarbonisation target amendment has already been tabled for debate during the Bill's report stage.

On 31 January a further clause proposed by Whitehead would have required the government to introduce a green power auction market. This was necessary, he argued, as the transition from the Renewables Obligation to contracts for difference feed-in tariffs (CfD FiTs) would remove the incentive for suppliers to operate power purchase agreements (PPAs). The government's proposal to take backstop powers in the *Energy Bill* might prove insufficient; an independent generator would not know whether it would be able to sell any of its power to the market, and access a CfD FiT. Independents needed to be able to prove the viability of their projects when they were established, not at the point when they needed "someone to come along and proffer a solution that may pick up the pieces". The proposed mechanism would be linked to CfD FiTs and a reference price so that, as a result of access to the auctions, market generators who did not have strong credit ratings could still ensure their product would be sold.

Hayes assured the government would be able to use its backstop powers immediately after the passage of the Bill—it would not necessarily wait until the system was operating ineffectively before acting. In addition, he noted there was evidence that independents were continuing to invest in offshore wind, and highlighted DONG Energy's recent decision to build the Westermost Rough offshore windfarm. Whitehead warned that the government needed to distinguish between independent generators that were vertically integrated in other markets and genuinely smaller players.

The government was confident, Hayes said, that CfD FiTs offered an opportunity for PPAs to be more transparent and more accessible. They could also provide better terms owing to the "simplification" of risk management. He believed that the changes implemented through the Bill must not disadvantage independents, and should provide them with a system they could navigate more simply. But Hayes said it would not seek to shield any commercial organisation from "the proper assessment and measurement of the risk-advantage balance". While the government wanted to help to mitigate risks, it was mindful that the costs of excessive actions to this end would be passed onto consumers. The clause was withdrawn, but Hayes agreed to look at the issue with DECC over the coming weeks.

Shadow energy minister Tom Greatrex introduced amendments that sought to ensure consumers were compensated fully when it was found they had not been treated fairly by suppliers. The Bill, he noted, would limit compensation to 10% of an energy company's turnover, but consumers should be able to receive what they were "rightly due". He proposed further amendments that would have allowed Ofgem the power to require energy companies to compensate regulatory breaches that occurred prior to the Bill's enactment.

Climate change minister Greg Barker warned that forcing energy companies to face both retrospective and unlimited liability would create regulatory uncertainty. He said there was a presumption in all legislation that powers should not be applied retrospectively, and this was particularly important where there was an impact on the cost of capital and consumer bills. Barker added that, in the unlikely event that consumers suffered losses on a scale that exceeded the cap in the legislation, they could pursue redress through the courts under existing arrangements. The 10% cap would mean penalties and compensation equivalent to nearly £1bn for the largest domestic energy suppliers, while the largest fine imposed by the regulator to date had been £15mn. Barker also suggested an unlimited cap would disproportionately impact smaller suppliers and network operators, as their capital costs were relatively high.

Greatrex withdrew the amendment but said he could return to consumer redress issues during the Bill's report stage.

These debates—confirmed by the amendments already tabled for the bill's report stage—are set to continue for some time.

Parliament

Barker takes on Green Deal criticisms

Climate change minister Greg Barker has defended the Green Deal from criticisms about lack of public awareness, the carbon savings from it and loopholes that may allow landlords to impose the cost of Green Deal improvements on tenants.

Barker gave evidence to the energy and climate change select committee for its *Green Deal Watching Brief* inquiry on 6 February.

uSwitch research published shortly before the Green Deal's launch suggested only one in five members of the public were aware of the scheme, despite a majority being interested in the potential of energy efficiency savings. But Barker argued DECC had made "fantastic progress" in raising interest in the scheme in the eight days since it had gone live. He noted that on the day the Green Deal website launched it received 42,000 visits, and Barker said he had already received encouraging feedback.

Barker said there were no progressive targets in place regarding take-up, and he regarded these as a "waste of time". The Green Deal was a market-based mechanism for the government to work with the private sector and would not be micro-managed. Barker assured the government would monitor the impact of the initial fees for a Green Deal assessment—which it has been feared will deter consumers—and will intervene if necessary. But he said early responses suggested it would not prove a "huge barrier", and some companies were already offering assessments without a fee.

When asked further about the monitoring of Green Deal applications, Barker reminded the committee that as the scheme was driven by the private sector there was "no robust dataset", and companies had the opportunity to disclose the information. But Barker did not wish to create a DECC-centred bureaucracy to track the way consumer interest in the programme was increasing.

The committee questioned Barker on the accuracy of carbon savings forecasts in the Green Deal impact assessment—and their recent downwards revision. DECC's Chris Nicholls said this had been due to a shift in policy that had emphasised combatting fuel poverty as well as carbon savings. Also, there was growing evidence to show that solid wall insulation would not save as much energy as was previously thought, and so the assumptions used in the impact assessment had taken these into account. Nicholls said the figures would continue to be revised as new evidence about the scheme came to light.

Barker agreed the figures cited in the impact assessment might not turn out to be correct—it was a "new market with huge variability" that could not be accurately predicted. But he added that, as the Green Deal had been launched, the government could now be able to collect data and have "real live evidence to make accurate forecasts".

The minister said the objectives of the scheme represented "a balance" between carbon saving and assisting vulnerable households. He was confident the scheme would help address fuel poverty, and said the government had been clear it would mark a "distinct improvement" on previous schemes. Despite much money having been spent on combating the issue in recent years, Barker argued there had been "very little" innovation in the fuel poverty sector. He said opening up the market could cause "a real leap forward".

But he faced stern criticism from the committee about the possibility that landlords might be able to use the Green Deal to install energy efficiency measures while having tenants pay for them. Further criticisms concerned the practicality of the scheme's "Golden Rule", which says the cost of installed measures must total no more than the savings on household bills made possible by them. Barker accepted that it was not possible to guarantee this outcome.

Earlier in the session Alexandra Willey, from housing association Affinity Sutton, Simon Gordon from the Residential Landlords Association and John Sinfield of the Insulation Industry Forum commented the Green Deal would be judged by the scheme take-up. Peter Smith of National Energy Action responded that the Green Deal should be measured by whether it gives people "warmer homes" in addition to energy efficiency benefits.

The session highlighted the challenges that the novelty of the Green Deal—and lack of certainty about the market—is causing for DECC in setting expectations.

Parliament

Parliamentary update—Week 6 2013

The energy bill committee concluded its line-by-line scrutiny of the legislation on 7 February. Its report should be published on 12 February.

On 4 February a delegated legislation committee considered draft *Climate Change Levy (Combined Heat and Power Stations) (Amendment) Regulations 2013*. The regulations would require two adjustments to be made when the operator of a station partly exempt from the Climate Change Levy determined whether they had exceeded the limit for exemption. First, electricity supplied to a utility or for domestic or charitable use would be disregarded, since such supplies would not be subject to the Climate Change Levy in any case. Secondly, the electrical equivalent of any mechanical power produced by the station must be taken into account. The regulations come into force on 1 April.

On 5 February deputy prime minister Nick Clegg gave evidence to the liaison select committee on *"Greenest Government Ever?"*. Clegg said beyond policy differences between the two coalition parties, compromises had been achieved over Electricity Market Reform that provided a level of long-term certainty for investors in the green economy. Clegg said he wanted to ensure the government did not "end up diluting" the fourth carbon budget when it was reviewed in 2014. He added that he was personally supportive of setting a decarbonisation target for the power sector for 2030.

The energy and climate change select committee held its first evidence session on 6 February for its *Green Deal Watching Brief* inquiry. See our coverage at p7, this issue.

A backbench business debate was held in the Commons on 7 February on *New Nuclear Power*. Martin Horwood (Liberal Democrat, Cheltenham) said an increasing amount of research was questioning the cost-effectiveness of nuclear power. He noted there was an "extraordinary" possibility that the sector might ultimately request a strike price for contracts for difference feed-in tariffs even higher than that of the emerging wind industry. Horwood added that EDF was "trying to pull a fast one" on UK energy bill payers—taking a subsidy designed for green technologies with falling prices, and claiming it for a 56-year old industry with a history of "spectacular" cost over-runs.

During oral questions in the Lords on 4 February, Labour peer Viscount Hanworth asked the government what steps were being taken to foster nuclear research and development (R&D) in the UK. DECC junior minister Baroness Verma said the government had been working with industry, academia, and other stakeholders on a programme to further develop the UK's nuclear R&D capabilities. The government would publish outcomes from the work alongside along-side a nuclear power industrial strategy in the near future.

On 7 February Labour peer Lord Foulkes of Cumnock asked what actions the government was taking following Centrica's withdrawal from the UK's nuclear new build programme. Baroness Verma said Centrica's decision reflected the company's investment priorities rather than being a consequence of government policy. She added that investment in nuclear power in the UK was a "highly attractive proposition".

Five interesting Early Day Motions (EDMs) were tabled this week:

- EDM1004 by Andrew Stunell (Liberal Democrat, Hazel Grove) called on the government to announce further energy performance upgrades to building standards;
- EDM1031 by Paul Flynn (Labour, Newport West) stated plans for new nuclear power stations were near collapse and called on the government to invest in alternative energy sources;
- EDM1032 by Paul Flynn (Labour, Newport West) stated it was irresponsible to create more nuclear waste without a solution for disposal;
- EDM1033 by Paul Flynn (Labour, Newport West) insisted parliament must have full transparency of all taxpayer liabilities before any commitments were made to nuclear subsidies; and
- EDM1045 by George Galloway (Respect, Bradford West) called on the government to ensure Britain did not export gas at a lower price than it was imported.

Links above

DECC considers decarbonisation target scenarios for CfD FiTs

Contracts for difference feed-in tariffs (CfD FiTs) will lower financing costs for electricity infrastructure regardless of the UK's decarbonisation pathway through to 2030, according to DECC. The department issued on 5 February an updated Impact Assessment for CfD FiTs that considered how both 50gCO2/KWh and 200gCO2/KWh scenarios would impact the effectiveness of the mechanism.

The analysis also incorporated broader consideration of the overall Electricity Market Reform (EMR) package under these scenarios. It estimated that, relative to a base case in which a 200gCO2/KWh target was achieved through existing instruments, domestic energy prices would be 4% lower through to 2030 under EMR. This compared to prices that would be 8% lower with a 50gCO2/KWh target.

EMR also achieved a greater reduction in household bills when compared to base cases the reflected the same emissions intensity through existing policies. For the 50g scenario under EMR, the average reduction for domestic customers' bills between 2016 and 2030 was found to be £49, compared to an upper bound reduction of £53 in the 100g scenario.

More on this next issue.

DECC

Revamped smart meter Impact Assessment shows benefits double costs to 2030

DECC has revised its assessment of the impacts the smart meter roll-out programme will have on the domestic and non-domestic sectors.

The department updated, on 24 January, its Impact Assessment, after the original version was criticised by both the National Audit Office and public accounts select committee for its assumptions and uncertainties. The new impact assessment reflects developments in the design work and evidence base. It also makes use of the latest available forecasts and estimates and updated values to use 2013 as the base year for present value calculations.

DECC recognised the significant costs that will be borne by energy suppliers—particularly equipment costs, installation and operation which are expected to total £6.98bn. Communications and IT equipment are thought to cost £2.65bn and £1.24bn respectively. Further costs of £1.24bn would be associated with industry set-up, and the consumer engagement strategy. The total expected costs were stated to be £12.1bn.

But the impact assessment also accounted for significant benefits. The affected groups were principally consumers and energy suppliers, who would both receive substantial monetised benefits. Consumers are expected to benefit by a total of £6.3bn—arising from reduced energy consumption and micro-generation. It was forecast suppliers would benefit by £9.7bn due to avoided site visits, reduced customer enquiries and overheads.

Further non-monetised benefits include the "further development of the energy services market and the potential benefits from the development of a smart grid". An increase in competition due to increased ease of switching and the improved availability of consumption information was also anticipated.

A period of 18 years has been accounted for in the impact assessment; the costs of the scheme are shown to outweigh the benefits until 2016 in an annual profile of monetised costs and benefits. By 2030 the benefits of smart metering are expected to be worth double the costs.

DECC

MP raises doubts on prime minister's lowest tariff promise

Mike Weir (SNP, Angus) has questioned whether prime minister David Cameron's desire to see everyone placed on the lowest tariff offered by their energy supplier will be implemented, and whether it would help those who struggle most to pay their household bills. Weir said on 31 January witnesses appearing before the Energy Bill committee—of which Weir is a member—have suggested the proposal would only put people on the lowest tariff of the type they are currently on— and that this would do little to help those on prepayment meters, which generally have a higher tariff.

Weir said prepayment meters were one of the few examples of consumers being penalised for paying upfront and in advance. He called on the government to take action to ensure these tariffs were reduced so that everyone was able to benefit from the proposed changes.

SNP

Green Deal optimism based on "overly simplistic" assumptions: UKERC

The belief that removing market barriers for energy efficiency installations will cause a surge in demand from homeowners is "overly simplistic", according to the UK Energy Research Centre (UKERC).

Published on 28 January, interim findings from the Centre's VERD project, based at the University of East Anglia, suggested that energy efficiency was seldom the main motivation for the renovation of homes. Instead, the study found the most common motivation for renovating households was to improve domestic life—commonly by extending or adapting space. But for homeowners planning to renovate the Green Deal was attractive; those planning to spend £5,000 on insulation and a boiler upgrade were said to be more than twice as likely to consider using the Green Deal, and those about to undertake other renovations were also more willing to consider energy efficiency improvements.

UKERC concluded that targeting Green Deal offerings at homeowners planning to renovate their kitchens, bathrooms, and living spaces would be an important way to improve energy efficiency in homes.

UKERC

Scotland sets power sector decarbonisation target

Scotland has set a target to cut carbon emissions from electricity generation to 50 gCO2/KWh by 2030.

The target was included in the Scottish government's revised *Offshore Wind Route Map*, launched on 29 January, and its draft second report on proposals and policies (RPP2) to meet overall emissions targets. First minister Alex Salmond said the UK coalition's "mixed messages" on energy policy and continuing uncertainty around Electricity Market Reform were undermining confidence in the sector and threatening supply chain investment. The carbon intensity target, he confirmed, would guide the Scottish government's overall policy approach and set the context for its decisions on applications for electricity generation.

The Scottish government said stakeholders would be consulted to ensure the target was set in a manner compatible with promoting low-carbon electricity from renewables and fossil fuels with carbon capture and storage. The UK government would also be consulted to be certain the target was compatible with the *Gas Generation Strategy*.

Further plans set out in the updated RPP2 included:

- delivering the equivalent of at least 100% of gross electricity consumption from renewables by 2020;
- a National Retrofit Programme to increase household energy efficiency;
- a £50mn Warm Homes Front providing grants and loans for renewable energy measures to heat homes; and
- a new *Domestic Heat Strategy* setting out plans for a largely decarbonised heat sector by 2030.

The draft report will be considered in the Scottish parliament and a final version will be issued during the summer.

Scottish government

Oettinger urges end to consumer price regulation

Artificially keeping consumer prices at a level not reflecting the true cost of energy is an unsustainable way of protecting the public interest, according to EU energy commissioner Gunther Oettinger.

Speaking at the Council of European Energy Regulators' Annual Conference on 29 January, Oettinger argued price controls led to budget deficits either for energy companies or the state. In the long-term they would undermine investment in new capacity and "cause hardship when prices [caught] up with reality", he warned. The EU would continue to convince member states to phase out regulated prices while taking into account universal service obligations and effective protection of vulnerable customers.

Addressing the implementation of the Third Energy Package, Oettinger called on national regulators to ensure rules were properly enforced. He said it was regrettable that in some countries the independence of regulators continued to be a concern—too often governments continued to interfere in regulatory tasks, in particular with budgets and staffing.

The European Commission is currently reviewing the guidelines for state aid for environmental protection, as well as preparing guidance on best practices and experience gained in renewable energy. Oettinger said the commission was also continuing to seek ways to reduce distortions in competition.

European Commission

Ofgem wants more powers to protect businesses from broker mis-selling

The regulator is seeking powers to allow it to enforce the Business Protection from Misleading Marketing Regulations.

Ofgem issued its *Gaining Enforcement Powers under the Business Protection from Misleading Marketing Regulations* consultation on 3 February. This set out its proposal that it should be able to apply for injunctions to ensure businesses comply with certain provisions in the Business Protection from Misleading Marketing Regulations 2008 (BPRs). This power would enable it to address situations where Third Party Intermediaries (TPIs) market energy contracts in a misleading way. Currently these powers can be exercised by the Office of Fair Trading (OFT), Trading Standards and the Northern Ireland Department of Trade, Enterprise & Investment. However, as these bodies have economy-wide remits, Ofgem says TPI mis-selling in the business energy markets have not been a priority for them.

The regulator originally made the proposal in its Retail Market Review (RMR) non-domestic proposals in October 2011 (*ES307, p12, 28/11/11*), and it said that it received support from a number of suppliers and business representative organisations. Ofgem considers that the BPR powers will complement the development of a single accredited code of practice for TPIs, which was included in the updated RMR proposals issued in November (*ES351, p12, 29/10/12*).

Ofgem said "consistent evidence" continues to emerge of TPI practices that involve the alleged mis-selling of energy contracts. They affect a minority of business customers, but can lead to detriment, both financially and in terms of other resources. Its RMR quantitative research showed TPIs were generally seen as a positive presence in the market, but 14% of businesses of all sizes who used a broker when considering a switch of electricity supplier and 17% when considering a new gas supplier were dissatisfied, mainly due to perceived pressure and unprofessional behaviour.

The additional powers would be gained by amending the BPRs to nominate Ofgem as an enforcement authority in respect of a limited range of the available enforcement provisions, namely:

- power to bring proceedings for an injunction for a breach (or likely breach) of regulations 3, 4 or 5 prohibiting misleading advertising, or the promotion of advertising which misleads traders, including non-compliant comparative advertising (in regulation 15 of the BPRs);
- power to accept an undertaking for compliance with regulations 3, 4 or 5 (in regulation 16 of the BPRs);
- power to request information to determine whether to bring injunction proceedings (in regulation 21 of the BPR).

Ofgem said it is seeking information gathering powers and the ability to apply to the Court for an injunction to secure compliance with the BPRs; it is not seeking powers to undertake criminal prosecutions for breaches of the BPRs, nor is it seeking powers of entry or powers to make test purchases.

It argued that the power for it to seek formal assurances and, where necessary, injunctions will assist business customers by stopping offending TPIs from making misleading claims about prices, contract terms or other elements of the services they are promoting. Ensuring that business customers are provided with information they are able to rely on should help them make properly informed decisions and businesses' increased trust and engagement in the market should lead to more effective and rational switching and contracting decisions.

The criteria for accreditation under the TPI code of practice would take into account and dovetail with the requirements of the BPRs. Where a TPI makes a misleading claim regarding its membership of a code which amounts to a breach of the BPRs, it would be open for Ofgem to take action. Decisions on whether to open an investigation would be taken in line with Enforcement Guidelines.

Responses are requested by 4 April, and Ofgem said it is particularly interested in receiving any further information in relation to the costs and benefits of the proposal. Based on this consultation and any additional evidence received, Ofgem will provide details to BIS to inform the case for the changes to be made to the relevant legislation.

Ofgem is now getting to grips with TPIs, and on Friday afternoon it held its first working group on the code of practice.

Ofgem

Gas transmission and distribution charges finalised for 2013-14

National Grid and the gas distribution networks have issued final notice of their charges.

National Grid issued notice of NTS charges on 31 January, following an indicative notice on 2 November. The charges are based on Ofgem's RIIO-T1 final proposals, although National Grid has yet to accept these. For 2013-14 the charging base is similar to that of 2012-13 and assumes that gas-fired power generation remains lower in the merit order than coal for the first half of 2013-14 but returns to merit over the winter period as gas demand increases and the operation of coal plant potentially becomes restricted under the Large Combustion Plant Directive.

The TO allowed revenue, which is shared 50:50 between entry and exit activities, has fallen by 11% from £695 in 2012-13 to £627mn. This reduction reflects changes in RIIO-T1 base revenue allowances, an £11mn reduction in revenue following the end of a one-off additional allowance for capex incentives, and a £21mn reduction as National Grid is not required to collect revenues relating to additional transportation costs to independent systems for 2013-14.

The NTS entry commodity charge levied on entry flows is estimated to decrease by 26% to 0.0224p/kWh, primarily due to the reduction in allowed revenue. Exit capacity charges are normally updated once a year in October. However following an industry consultation by National Grid and a request for a direction to Ofgem (*ES362, p15, 28/01/13*), the regulator decided on 25 January to direct a one-off change to exit capacity charges for April 2013. This change was to mitigate the impact of the volatility created by the mismatch between the October start charging year and April start for the allowed revenue collection year, particularly in the context of a change to the RIIO-T1 price control.

National Grid has indicated that it will engage with industry to consider a permanent move to April charging. Ofgem said the short notice period for the change was mitigated by the effect of the change being an absolute reduction in charges (apart from those already on minimum charging levels) and, as the change did not concern the methodology itself, there were no significant distributional impacts.

The NTS exit commodity charge, which is a residual charge introduced in October 2012 to collect the correct TO exit income from shippers when capacity has not been booked up to the baseline, will increase by 19% to 0.112p/kWh. The increase is mainly due to booking levels for baseline exit capacity falling for 2013-14, being 9% less than 2012-13, meaning the charge needs to recover a larger revenue shortfall.

SO allowed revenue has reduced by 28% or £119mn to £310mn, although the net effect after taking account of SO revenue collected from other charges (principally incremental entry capacity that transferred to TO income after five years) is a reduction of £85mn in 2013-14. The SO commodity charge as applied to both entry and exit flows will decrease by 23% to 0.0176p/kWh, due mainly to the reduced SO allowed revenue.

The compression charge levied at the Total Oil Marine sub-terminal at St Fergus is expected to increase by 23% to 0.0176p/kWh, due to a forecast increase in the cost of operating compressors, and the Connected System Exit Points Administration charge will reduce to £0.36 a year per supply point.

The gas distribution networks also published their charges from 1 April on 31 January. Average increases to transportation charges across National Grid Distribution's four networks are between 5.9% and 12.7%. Factors underlying the change were changes to maximum allowed revenue, forecast inflation, the impact of income shortfalls in 2012-13 and the impact of reductions to supply point capacity, which has meant a required increase in unit transportation rates.

Wales and West Utilities announced an increase of 12.5% excluding exit capacity charges, and Northern Gas Networks an increase of 5.2% on the same basis.

Charges for Scotia Network's Scotland network will increase by 15.2% (no summary was provided for the Southern network).

The charges reflect the impacts of the new price controls, but also the impact of forecasts of changes to the charging base, where the gas distribution networks are facing immediate falling demand.

Joint Office - NTS charges   Ofgem - direction   Joint Office - GDN charges

Ofgem sets out approach to mitigation actions for CERT and CESP end

The regulator set out on 31 January details of its approach to the assessment and timing of mitigation actions taken by obligated parties under the Carbon Emissions Reduction Target (CERT) and Community Energy Savings Programme (CESP).

Ofgem confirmed that any party that did not deliver all the required measures by 31 December is in breach of its legal obligations and at risk of enforcement action. It warned that mitigation action is not a substitute for compliance, although Ofgem will take it into account in deciding whether to open an investigation and, if appropriate, impose a penalty.

The letter provides clarity in two areas following earlier open letters in September and December on administrative processes for delivery of mitigation actions. Ofgem said:

- for "continuation schemes", mitigation actions which match or are a close match to those undertaken under the CERT and CESP schemes will have a greater weight in its assessment than other mitigation actions. Actions which under CERT and CESP schemes would have attracted bonuses, caps and uplifts are included in this; and
- it will give most weight to CERT/CESP measures that are delivered shortly after 31 December 2012.

The last date suppliers can submit data to Ofgem for review under the Mitigating Action process is 31 May 2013.

Ofgem

Ofgem decides on methodology for 2013 electricity capacity assessment

The regulator is required under the *Energy Act 2011* to provide the secretary of state with an annual report assessing different electricity capacity margins and the risk to security of supply associated with each alternative. The report, the first of which was issued in September, is intended to inform decisions on Electricity Market Reform and in particular the capacity market.

On 31 January Ofgem set out its decision on the methodology to be used for the 2013 report following a consultation in November (*ES358, p13, 17/12/12*). Ofgem said all respondents agreed with it that the approach in the methodology remains sound and fit for purpose.

In relation to three specific aspects raised in the consultation:

- Ofgem will use a qualitative approach to assess the contribution of interconnector flows to electricity supply in the base cases and sensitivities;
- on demand-side response (DSR) it will maintain the approach of using no explicit model due to the lack of appropriate available data. DSR is captured in National Grid's demand forecasts and will be assumed to continue at current levels for the five years under analysis; and
- Ofgem will maintain the assumption of the independence of wind and high demand for modeling purposes but will investigate this relationship further using additional long time data series.

Ofgem

Regulator extends Network Innovation Competition to OFTOs

Ofgem published on 1 February a notice setting out the Authority's decision to modify the standard conditions of offshore transmission licences to include the Network Innovation Competition (NIC). It said that this will allow the network licensees to lead bids to compete for funding for innovative projects, which could deliver low-carbon and environmental benefits for customers. The decision follows an open letter consultation in November and statutory consultation in December.

Alongside the licence direction Ofgem also issued the electricity NIC governance document, which sets out the regulation, governance and administration of the competition and which network licensees are required to comply with as if it formed part of the licence. The NIC will run annually from April 2013 and a maximum of £27mn will be available each year for the purposes of the competition, with a further £3mn available for successful delivery.

Ofgem said a separate modification notice to add this condition to the licences of onshore transmission licensees has also been issued.

Ofgem

Ofgem confirms implementation of gas SO proposals

Following its publication of final proposals for gas SO incentives in December (*ES360, p13, 14/01/13*), Ofgem set out its decision on 31 January to direct that licence modifications be made in line with those proposals.

The regulator considered issues raised in the two responses to the proposals, which were in respect of its proposals on reputational incentives for Unaccounted for Gas (UAG) and Operating Margin (OM), the new incentive for maintenance, the new incentive for demand forecasting (D-2 to D-5) and auditing costs.

On UAG and OM one respondent suggested that the levels of UAG on the NTS in particular placed a significant cost on industry and Ofgem's proposals for reputational incentives in these two areas were relatively weak compared to a potential cost incentive. Ofgem confirmed it does not consider it is possible to place a financial incentive in respect of UAG at this time.

In respect of OM it considers that it is placing "an appropriate and up-to-date" reputational incentive to promote competition in the procurement of OM services, with a reporting regime to ensure transparency.

It confirmed that the future of the D-2 to D-5 forecasting incentive, which is due to expire in 2015, will be considered after National Grid's performance against it has been monitored.

Ofgem

ACER issues formal opinion on network code on gas balancing

The Agency for the Cooperation of Energy Regulators (ACER) published on 28 January its formal opinion on the network code on gas balancing of transmission networks prepared by the European Network of Transmission System Operators for Gas (ENTSOG).

While praising ENTSOG's stakeholder engagement process in developing the code, ACER said that some of its articles could be brought further into line with the provisions of the framework guidelines and *Regulation EC 715/2009*. The areas include: the partial acceptance of (re)nominations process, which ACER is concerned could undermine firmness of capacity and the goal of cross-border consistency; the principles of neutrality mechanism in relation to efficiently incurred costs; and "other issues" including transitional measures for (re)nominations, information provision on within-day obligations, and definitions relating to "paper traders".

ACER said ENTSOG should resubmit the network code in February so it can be recommended to the European Commission for adoption.

ACER

European regulators compare support schemes for renewables

The Council of European Energy Regulators (CEER) issued on 28 January an update to its status review of renewable and energy efficiency support schemes in Europe. It includes details of the types of scheme in place, the level of support, including by technology, and the volume of electricity supported. A total of 24 countries from Europe and members of the wider European economic area responded to a survey in July, although only 18 provided full details.

The survey showed that supported renewable energy accounted for on average 8% of gross electricity generation in 2010 and 9% of final electricity consumption. Spain and Portugal had the highest shares of electricity consumption receiving support, at 23.4% and 27%, respectively. Norway was lowest, at 1.3%. Germany had the highest absolute level of renewable electricity receiving support at 82TWh, representing 15.9% of consumption, compared with the UK at 22TWh—representing 6.7% of consumption.

The level of support for final electricity consumed in 2010 varied from €0.12/MWh in Norway to €25.52/MWh in Portugal. The average support was around €7/MWh (£6.02/MWh). The level of support in the UK was €4.38/MWh.

The CEER said the report was timely in view of the European Commission's intention to review renewable energy support schemes and issue guidance on best practice.

CEER

Energy spectrum+ subscribers can check out our latest Codes and charging update online here.

Centrica pulls out of UK nuclear new build

The company will write off the costs and buy back £500mn of shares.

The company reported on 4 February on an appraisal of its new nuclear programme after pre-development expenditure approached a £1bn cap. The appraisal found that, while there had been progress in a number of key areas, namely design and planning, there remained uncertainty about overall project costs and the construction schedule. Centrica's 20% share of pre-development expenditure will be written off as an exceptional cost in the group's 2012 results.

Centrica acquired a 20% interest in eight operational nuclear power stations operated by EDF Energy in 2009 and also gained a 20% interest in the construction of new nuclear power stations at Hinkley Point and Sizewell. Funding for the acquisition was provided through a £2.2bn rights issue, completed in 2008.

Having taken the decision not to proceed with the new nuclear investment, the group has announced it will launch a £500mn share repurchase programme to return surplus capital to shareholders. This will take place over the next 12 months. The company said its 20% interest in the eight existing nuclear power stations in the UK would be unaffected by this decision.

Chief executive Sam Laidlaw said: "Centrica and EDF continue to enjoy a successful partnership in existing nuclear. However, since [Centrica's] initial investment, the anticipated project costs in new nuclear have increased and the construction timetable has extended by a number of years". These factors, particularly the lengthening time frame for a return on the capital invested in the project, led the company to conclude that participation was not right for Centrica or its shareholders, he continued.

EDF Energy said it had been "prepared" for the decision. Chief executive Vincent De Rivaz acknowledged Centrica's withdrawal highlighted the challenge the government faced in delivering a contract for difference that attracted secure investment. However, he challenged Centrica's concerns over cost and timeline uncertainty. He added that the new nuclear project at Hinkley Point C was making "good and continuous progress"—notably with the granting of the reactor design approval by the joint regulators, and the granting of the site licence. A planning decision from the secretary of state is also anticipated in the coming weeks.

DECC said Centrica's decision "reflects the company's investment priorities and is not a reflection on UK government policy". DECC continues to be "determined to make the UK the leading global destination for investment in new nuclear, which will play a key role" in the future UK energy mix. But Platts said the news would come "as a further blow to UK government ambitions of securing as much as 16GW of new nuclear investment in the coming years".

Chief executive of the Nuclear Industry Association (NIA), Keith Parker, said he was disappointed by the news, but that it "does not detract from the UK's position as one of the best places to invest in nuclear worldwide". Nuclear new build will be a major engine for growth in the UK economy, as the programme "could boost UK GDP by £5.1bn over the next 15 years", Parker added.

Analyst Citigroup commented that the key issue for Centrica was one not necessarily of cost, as it could "clearly afford the cash outlay for its 20% share". But it suggested the risk and returns profile of the project "leave a lot to be desired from an equity investor's point of view". The analyst expected Centrica's announcement to be a "positive catalyst" for the company's shares and would bring greater clarity from management on plans for the deployment of the company's free cash flow.

Citigroup believed it was likely EDF would sell at least 20% of the project as it had previously only committed to maintaining at least a 50% holding. Interest from Chinese investors to take a stake in the Hinkley Point C development was said to be likely, given EDF was currently working on a new development in China.

Merrill Lynch said Centrica's decision was "hardly surprising".

This announcement was expected by the City and analysts are now looking forward to Centrica's preliminary results on 27 February, which will update on the company's strategy and investment plans.

Centrica Citigroup EDF Energy NIA

SSE strikes wind deal as renewables hit new peak

In the last two weeks SSE has issued an interim management statement and, along with RWE, struck a deal to release capital for new investments by selling established assets.

In the 31 January interim management statement, SSE claimed it was on track to achieve its operational and investment objectives and increase profit before tax for the financial year to 31 March 2013. The statement addressed business developments since the start of the financial year in April 2012 to December 2012. SSE is planning to publish its year-end results on 22 May, and based on performance so far it is expecting to increase its pre-tax profit by 4%-5%. The company said all of its business segments have been profitable.

Profit in the retail segment grew over the period as a result of higher domestic consumption, and profit margins increased from 3.5% in 2011-12 to around 5%. Nine month average electricity demand rose 4% to 2,991kWh and gas consumption climbed 22% to 9,186kWh. The company also raised prices by an average 9% on 22 August. The company saw a reduction in the number of electricity and gas accounts in the UK and Ireland. The total number of accounts fell from 9.55mn to 9.46mn, despite the acquisition of 130,000 Phoenix Gas customers in Northern Ireland in June 2012.

Low spark spreads, planned maintenance outages at Keadby and Medway power stations and the closure of the 214MW Derwent CHP cogeneration plant resulted in a 66% reduction in gas-fired generation volumes to 6.4TWh in the period. In contrast low prices helped coal power stations increased production by 27% to 13.6TWh.

Electricity output from renewables sources where SSE has an interest was 5.2TWh, compared with 5.3TWh over the same period in the previous year. The slight reduction masks opposing shifts; hydro generation was lower and wind generation was higher. Hydro output fell 40% compared to the previous year, as a result of lower than normal rainfall in catchment areas. In contrast wind output rose as new capacity became operational, and SSE broke a company record for peak renewables output on 28 December 2012. As a result of high wind speeds and rainfall, SSE saw peak renewables production of 2GW, just under half of the company's output at the time.

SSE now claims it is the biggest renewables operator in the country, with 3,208MW of capacity, as the Clyde and Greater Gabbard windfarms started up and the Glendoe hydroelectric scheme came back online. But it also said that uncertainty surrounding the proposed Electricity Market Reform capacity mechanism has led it to postpone an investment decision on the 470MW Abernedd CCGT until the second half of 2013 at the earliest.

Citigroup commented: "In generation, as expected, coal output is up year-on-year but not by enough to offset the significant declines in CCGT output. Renewables output is flat y-o-y despite increasing capacity online due to record hydro output last year. In retail customer losses and underlying demand declines continue".

Separately on 6 February the sale of assets by SSE emerged as an important element in a new investment company launched by Greencoat Capital. Greencoat UK Wind plc is seeking to raise an initial £205mn to invest in operational UK wind assets owned by SSE and RWE npower. According to partner of Greencoat Capital Stephen Lilley, "operating wind farms should make attractive investment assets, particularly for investors seeking long-term, predictable returns. Greencoat UK Wind represents the first opportunity to invest into a listed infrastructure fund, fully invested in operating UK wind farms." Depending on total funds raised, Greencoat will acquire interests in assets including the onshore Little Cheyne Court (from RWE) and Braes of Doune (owned by SSE) developments and the offshore Rhyl Flats (owned by RWE).

The day-to-day operations of the wind farm assets in the seed portfolio will continue to be performed by RWE and SSE respectively. SSE has contracted with three of the wind farms and will retain the operation and maintenance contract for all the stations. Merrill Lynch said the SSE will reinvest the proceeds in new wind farms currently under development, "most likely at higher returns".

While the interim management statement shows SSE's current challenges, the Greencoat deal is more important strategically both for the company and the sector as a whole. By drawing in fresh capital to established assets, it should free up capital by both companies to invest more in new capacity.

SSE—IMS SSE—Renewables Record Greencoat SSE—sale of wind farms

SSE offers customers £20 cash back for poor service

The company has promised to meet a new set of customer service commitments—or allow customers to claim £20 off their next bill. The five defined standards backed by the promise included always calling customers back when agreed, and offering to find ways to save customers money when they contact the company.

The guarantee was part of a new customer charter, unveiled by the company on 5 February, and outlined commitments based on three core objectives: making life easier for customers; saving consumers' money; and helping customers when they need it most.

Deputy chief executive Alistair Phillips-Davies said SSE was setting itself higher standards and making itself fully accountable for meeting them.

SSE

Long-term growth and steady return potential attracting investors: PwC

Institutions including insurance, pension and sovereign wealth funds have doubled their share of merger and acquisition investment in the power sector year-on-year, according to PwC's annual *European Power and Renewables Deals* report.

Published on 29 January, the report showed infrastructure funds and institutions accounted for a third of all power and renewables deal value in 2012. The sector was said to be attracting a greater diversity of buyers, with conditions now right for a "revival of power and renewables deal activity in 2013".

Global power and utilities leader Norbert Schwieters said the findings marked "a significant shift in the buy-side balance". In the space of one year, he added, corporate buyers' share had gone from 80% of total deal value to just 63%. In their place, outside investors were coming into the sector, "attracted by its long-term growth and steady return potential".

The report also mapped a number of deal hot spots and investment opportunities around the world in the power and renewables sector for the coming year.

PwC

On-site generation "brings business benefits"

Businesses that generate their own energy from renewable sources will reap advantages in the future, according to a recent paper by EDF Energy.

Issued on 22 January, the paper predicted the renewable energy generation market in the UK would double over the next five years, reaching 75TWh annually. The main drivers of this growth were expected to be independent generators—mainly in the wind and biomass sectors. The report claimed that by 2017 these sectors might account for over 60% of the total renewable generation market.

It noted there could be significant growth within waste and water management businesses, utilities and industrial units. There would also be abundant opportunities for local authorities.

According to EDF Energy, on-site renewable energy generation can help businesses create new revenue streams, reduce exposure to price uncertainty and help ensure long-term revenue structures.

No link

DONG Energy confirms plans for offshore windfarm

DONG Energy has confirmed it will move forward with plans to build the Westermost Rough offshore windfarm.

The project, off the Yorkshire coast, will require a total investment of around €1bn and will consist of 35, 6MW turbines providing a total capacity of 210MW. DONG Energy said the transmission assets will be sold to an offshore transmission operator when the windfarm becomes operational. Construction of the windfarm will begin in H114 and Westermost Rough is expected to be fully commissioned in the first half of 2015.

Chief executive Henrik Poulsen said on 30 January: "The size and location of the project is very well suited as the first-large scale project with the new Siemens 6MW turbine". The project is a "good foundation" in the company's work to bring down the cost of offshore wind, he added.

DONG Energy

US retail competition is alive, and working well in Texas

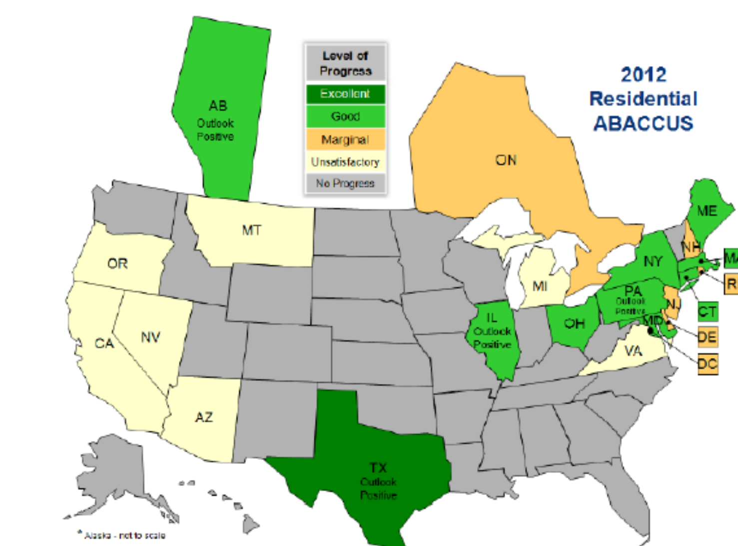
Perry Sioshansi's Letter from America

Like everything else, it works well when it works well.

The introduction of competition at the retail level—as well as market restructuring—was a big topic in the USA in the late 1980s and 1990s, including speculation that it might be federally legislated across the country. A number of states were contemplating following the lead of states in the Northeast and California and allowing customers to select their electricity supplier. But two unexpected developments put an end to any hope of a national electricity market reform and resulted in the typical American piecemeal approach to energy. The result is illustrated in the map (*right*) showing where retail competition is currently allowed in North America.

Did you know you could choose your electricity supplier?

Current status of retail choice for residential consumers in jurisdictions in US & Canada



Source: ABACCUS

First came California's disastrous 2000-01 electricity crisis, including the near bankruptcy of investor-owned utilities, the collapse of Enron, a mid-term election in which state governor Grey Davis lost his job, and a costly mess for California's rate-payers and taxpayers, estimated to exceed $40bn.

Second was the equally spectacular failure of the Federal Energy Regulatory Commission's (FERC) proposal to introduce standard market design (SMR) and the creation of a handful of large organised wholesale markets, which led to the departure of Pat Wood, the FERC Chairman who had the audacity to propose it against fierce opposition from a number of powerful utilities and their supporters, notably Southern Company. They wanted no part of either SMD or a competitive wholesale market.

Texas was the only state to proceed with opening its retail market in 2002—no other state has introduced retail competition or restructured its electricity market over the past decade, and few are contemplating doing so. Does that mean that retail competition is dead and forgotten?

According to a recent report by ABACCUS (Annual Baseline Assessment of Choice in Canada and the US), the opposite may be true: retail competition is thriving in states where it has been introduced and is tempting regulators in other states to follow suit—at least that is what ABACCUS would like us to believe, as suggested by the rankings in accompanying table.

Retail competition, where available in the context of a well-functioning restructured market, offers customer choice and—all else being equal—can be expected to result in lower retail prices. The best example is the Texas retail market, frequently hailed as the best of the breed in North America.

Textbook economic theory says that more competition results in more service options, more consumer choice and—all else being equal—lower prices. This is consistent with what is documented for Texas. Other successful markets exhibit similar trends but are not as convincing as Texas. Lower retail prices may also be due to other developments, such as falling fuel prices. Natural gas prices, for example, have been low during the period.

Nat Treadway, one of the lead authors of the latest report, released by management consultancy DEFG, points out that "Retail electricity competition grew in 2012 at an even more aggressive pace than in 2011, delivering lower prices and more innovative offerings for consumers. For commercial and industrial customers, retail competition leads to global competitiveness."

Commenting on the latest ABACCUS report, Young Kim, who follows competitive retail markets in North America for consultancy Kema said: "Retail competition stands at a crossroads and customers will shape the path of retail expansion. All the conditions are in place for new markets to open up—low and stable power prices, success stories in most competitive retail markets and healthy retail margins. The question is do customers care?"

Excellent, marginal or not applicable

Residential ABACCUS Scores and Rank

Jurisdiction	2012 Score†	2012 Rank	2012 Assessment§	2011 Rank
Texas	86	1	Excellent	1
Alberta	66	2	Good	4
Pennsylvania	64	3	Good	3
New York	62	4	Good	2
Connecticut	55	5	Good	5
Maryland	55	6	Good	6
Illinois	52	7	Good	7
Ohio	49	8	Good	10
Maine	47	9	Good	11
Ontario	45	10	Marginal	9
Massachusetts	43	11	Good	8
New Jersey	43	12	Marginal	12
District of Columbia	39	13	Marginal	13
Delaware	35	14	Marginal	17
New Hampshire	33	15	Marginal	14
Rhode Island	33	16	Marginal	16
California	29	17	Unsatisfactory	18
Michigan	28	18	Unsatisfactory	15

Source: ABACCUS

"A residential customer buys an electric vehicle or a Nest learning thermostat, but she realizes that her electricity plan with the regulated utility is suboptimal—does she express her dissatisfaction by switching (to another supplier)?

A commercial customer in Wisconsin realizes his neighbour in Illinois is paying much less for electricity—does he complain to the state commission?"

Kim's assessment is that, "Regulators will act if customers demand change. That is the key. There are reasons to be optimistic that the voice of the customer is being heard in Michigan, California, Pennsylvania, and a number of other places. Their voices need to get louder".

The message of the latest ABACCUS report should be encouraging to state-level regulators who may be contemplating retail competition. There are a few states where such ideas are being entertained in one form or another. Nothing radical or on a grand scale, however, is expected any time soon. Treadway notes that, "Several state governors and key legislators are taking a fresh look at retail electricity choice in states that rejected or scaled back these reforms a decade ago." People like Treadway and Kim remain hopeful.

Perry Sioshansi is a specialist in electricity sector restructuring, and he has been actively involved in discussions in a number of developed, developing and transition economies.

He is founder and president of Menlo Energy Economics and is the editor and publisher of EEnergy Informer, which we commend to you.

cornwallenergy

Getting Betta

13-14 March 2013

Cost: £1,150 + VAT (residential)/ £1000 + VAT (non-residential)

Venue: Coombe Abbey Hotel, nr Coventry

Explains the role of Betta in the context of overall policy. Develops a comprehensive framework for understanding all key aspects of the market design. Critiques operations to date and looks at the future prospects. "*Getting Betta*" will benefit senior managers from business, regulators and policy makers, and new entrants, as well as service providers, analysts and commentators.

To book your place please contact Georgie Graver on 01603 604422 or visit http://www.cornwallenergy.com/Courses/Getting-BETTA

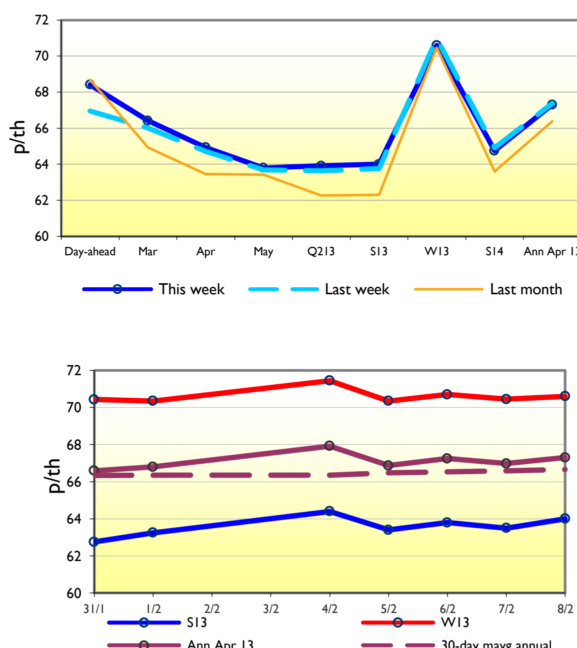
Gas

The gas market saw short-dated prices rise on colder weather last week, but longer-term contracts were relatively stable despite a spike in oil prices.

Reduced temperatures saw demand increase for shorter-term contracts. The day-ahead gas contract rose 2.2% to 68.4p/th. The month-ahead contract gained 0.6% to 66.4p/th.

Seasonal contracts were near-unchanged despite economic optimism boosting international oil prices. The summer 13 gas contract climbed 0.4% to 64.0p/th but winter 13 dipped 0.5% to 70.6p/th.

The marker annual April 2013 contract fell 0.1% to 67.3p/th. The contract is now 1.6% below the same period in 2012.



Electricity

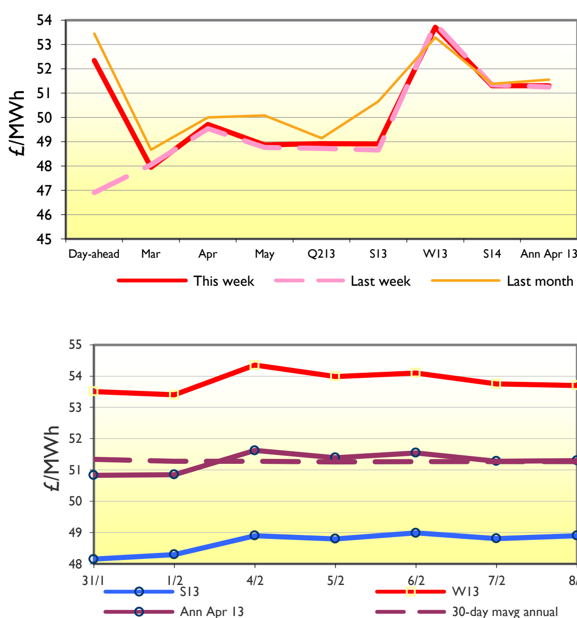
Colder-than-average weather and reduced wind output helped to increase short-term power contracts. The contract jumped 11.6% to £52.3/MWh and is now 2% above the same point last month.

Other power contracts were considerably more docile, with movements limited to no more than 0.5%.

Overall, the average price of monthly power contracts dropped by 0.1%. Month-ahead power ticked down 0.2% to £48.0/MWh.

Seasonal prices generally followed their gas counterparts. Summer 13 power was up 0.5% to £48.9/MWh, but the winter 13 contract slipped 0.3% to £53.7/MWh.

The marker annual April 2013 power contract rose by just 0.1% to £51.3/MWh.



Oil, coal and carbon

Month-ahead Brent crude oil rose 2.0% to a weekly average of $116.6/bl following renewed economic optimism in the Chinese market.

Coal prices were also boosted by positive economic news from China as the annual contract climbed 7.7% to $100.0/t.

Calls for intervention in the carbon market helped strengthen prices as the 2014 contract rose 12.7% to €4.4/t.