

Mr Iain Morrow
Energy Security Strategy Team
Department of Energy and Climate Change
Area E, 4th Floor
3 Whitehall Place
London SW1A 2HD

27 October 2009

Dear Mr Morrow

Consumer Focus welcomes the opportunity to comment on DECC's call for evidence regarding how best to deliver secure low carbon electricity. For many of the specific questions outlined we do not have the necessary expertise to provide technical answers, so we offer broad comment and analysis rather than answering each question separately.

Consumer Focus is the independent champion for consumers across England, Wales, Scotland and (for postal consumers) Northern Ireland. We operate across the whole of the economy, persuading businesses and public services to put consumers at the heart of what they do.

In summary, our key concerns relate to the expected role of consumers in delivering secure low carbon electricity, particularly in regard to demand side management and price increases.

The risks to future electricity security of supply

Consumer Focus believes it is difficult to accurately predict the state of the electricity system up to 2050. Our concerns and priorities thus reflect the years up to 2020 when smart meters will be rolled out across the country and decentralisation (in the form of Feed in Tariffs) comes on-stream. The period after this might be termed the next generation of electricity system design, with National Grid reinforcing the network and a host of unknown outcomes likely to occur.

We believe there are three key risks:

- lower energy demand up to 2018¹ and significantly increasing prices for consumers as they are expected to pay for the move to a low carbon energy market
- the need for new nuclear build and achieving the required investment levels, in addition to the problems associated with planning approvals and public acceptance
- the implications of the failure for a realistic/sufficiently high carbon price

¹ Morgan Stanley UK Utilities 13 October 2009

The potential for smart demand to help manage these risks

Consumer Focus has concerns as to the precise definition and extent of 'security of supply'. Generally speaking the market left alone will clear and thus the danger of Italian-style blackouts occurring comes from regulatory error rather than manipulation by generators or suppliers. Furthermore it is not acceptable to have the market clear at retail prices that are inequitably high. Thus the problem as Consumer Focus sees it is not one of an over-reliance on non-UK energy sources, rather the Government over-estimating consumers' willingness to adapt and manage demand themselves. Piecemeal and uncertain demand management is not a substitute for comprehensive generation incentive; that is to say, creating the right environment for new plant is more important than a raft of smaller schemes to alter consumer demand.

That said, smart grids will certainly contribute to decarbonisation, principally through their facilitation of efficiency in use and, perhaps, remote demand management. Our concern here is that consumers will not respond in the way theory might suggest, as the fundamental question of how efficiently consumers can be realistically expected to manage their own demand is a difficult one. Consumer Focus believes that partially restricting consumers' choice sets (eg, only allowing the sale of demand managed fridges, with current models being phased out) would be a more efficient way of ensuring that management occurs. International comparisons may prove useful here.

Even assuming very high levels of management by consumers, there remains the issue of electricity simply not being generated if the wind is not blowing at sufficient levels. If demand requires it, and in contrast to cold start coal or gas, the wind cannot be turned on in a matter of days. This is especially concerning given that it is today's consumers who will be paying for future consumption. However, Consumer Focus believes demand management could be of benefit to consumers if it helps make energy more cost reflective; but only if barriers such as low levels of consumer information are tackled.

Future challenges for the electricity system as we move to a less carbon intensive generation mix

Consumer Focus believes that arguably the most important challenge for the future is proper engagement with and the empowerment of consumers. This is crucial for the achievement of the Government's goals for a low carbon energy supply.

In addition, any associated increases in cost to consumers for this move to low carbon energy supply must be fair, affordable, clear and transparent. Any savings made with the introduction of new technologies such as smart meters and smart grids must be passed onto consumers.

Given the Government's ready acceptance of costs being passed onto consumers, Consumer Focus feels there is a particular responsibility to ensure that opportunities to change behaviour, thus reducing energy bills, are maximised. It is crucial that the Government considers carefully whose responsibility it will be to help consumers change their behaviour, what the incentive mechanisms are and how this will be delivered. We believe that, given their obligation to shareholders, energy suppliers are not best placed or willing to take the voluntary lead on helping consumers change their behaviour.

Given our remit to help protect disadvantaged and vulnerable consumers we have considered the issue of price increases very seriously. Energy bills will be rising in the medium term (and will continue to do so in the long term) as a result of, for example, renewable obligations, smart metering, the Carbon Emissions Reduction Target (CERT), Feed-in Tariffs (FiT) and network costs more generally. It is vital that consumers do not become the overly burdened actors in the energy industry or the de facto solution to all financial deficits.

Supply side options that could help manage these risks and challenges

It is crucial that Great Britain has adequate future generation capacity and that there is sufficient capacity to access the grid. There have been dramatic increases in the actual and forecasted cost of constraint management; all the indications are that a 'connect and manage' approach favoured by the Government in the recent Transmission Access Reform consultation will exacerbate the problem further. Associated costs are ultimately borne by the consumer.

We cannot get away from the fact that the cost of required improvements to ensure ongoing supply will be borne by consumers. We reiterate that these costs must be fair, affordable, clear and transparent.

If you have any questions or would like further information about our response please contact Andrew Hallett, Policy Advocate, Regulated Industries Team by telephone on 020 7799 7938 or via email: andrew.hallett@consumerfocus.org.uk

Yours sincerely



Robert Hammond
Head of Regulated Industries