

The background features a large, stylized white arrow pointing to the right, overlaid on a blurred image of a modern building with a glass facade and a large, glowing, multi-layered circular structure resembling a stylized sun or a futuristic light fixture. The overall color palette is dominated by blues, oranges, and whites.

Smart Metering to Smarter Markets

Colin Sausman
Partner, Smarter Markets
28 September 2011

Areas to cover

- Policy and market context
- Policy design for smart meter rollout
- Protecting consumers' interests through 'smarter markets'



Setting the scene

- Low carbon policy goals & tools
- Important role for energy markets
- Reform agenda for energy markets
- Integration with Europe
- Current market performance
- Public profile of energy markets



Ofgem

- Independent regulator of GB gas and electricity industries
- Principal objective to protect the interests of existing and future consumers; secondary duties relating to sustainable development
- This includes supporting efficient delivery of Government policies that operate through energy markets
- Active involvement in facilitating innovation and change
 - RIIIO price control framework
 - Smart Metering Programme
 - Project Discovery
 - Low Carbon Networks Fund
 - Energy Demand Research Project

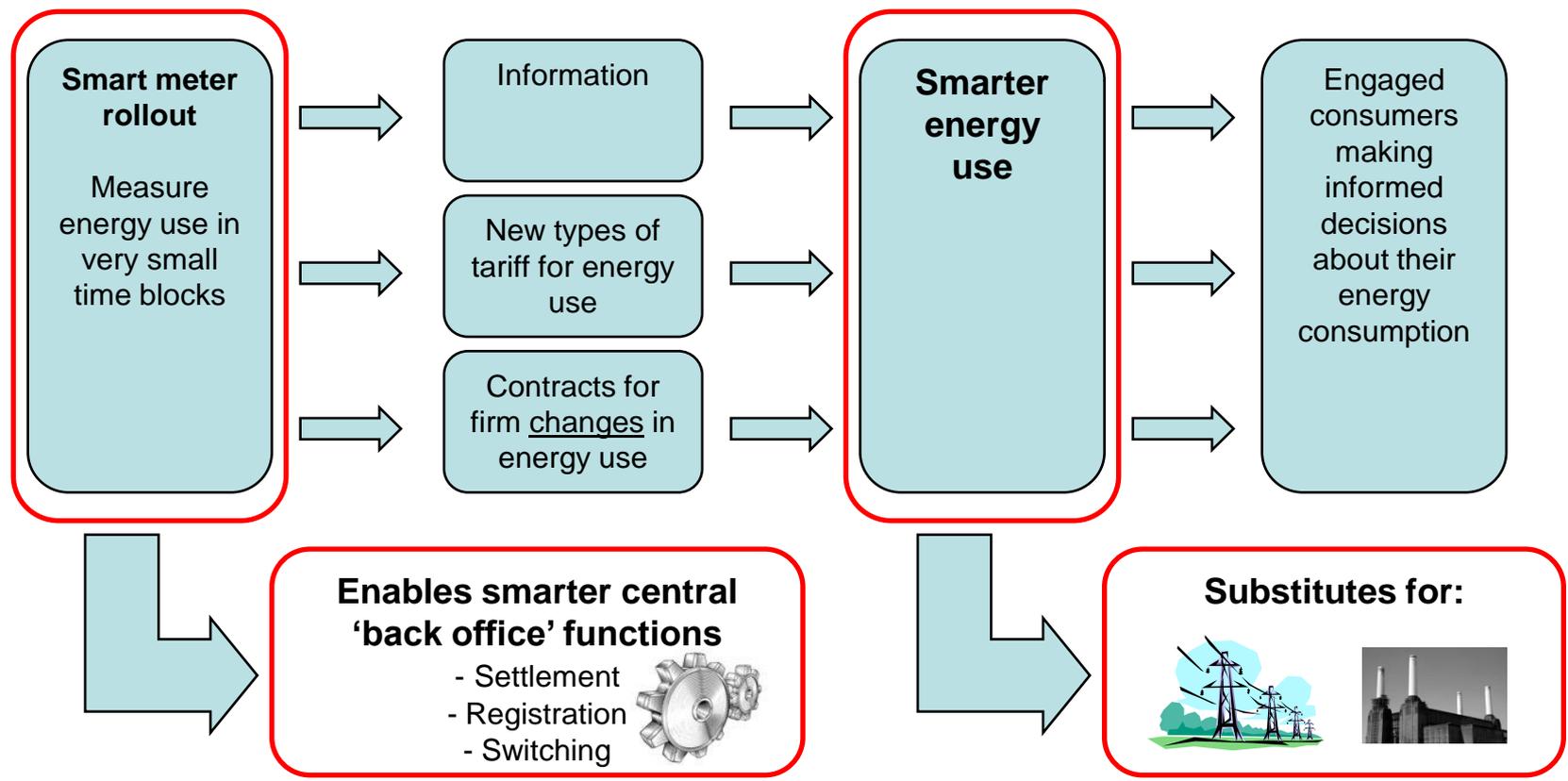
Policy design for smart meter rollout

- Supplier-led rollout
- Mandated open, non-proprietary technical standards
- Centralised management of data and communications
- Foundation stage to build readiness for mass rollout
- Decentralised delivery under a regulatory framework

Ofgem's role

- Successfully delivered policy design phase jointly with DECC
- Advising on detailed regulatory design
- Regulating rollout – as new obligations are put in place

Why are smart meters important?



Smarter Markets Directorate established in April 2011

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Smarter Markets Strategy Project

Neil Barnes
Head of Smarter Markets Strategy

Areas to cover

- Objectives
- Approach
- Scope
- Key workstreams
- Next steps



Strategy Objectives

- Ofgem will necessarily have an important role in shaping market development on the back of smart metering
- Our aim is to nurture smarter markets in retail energy and the goods and services that affect how energy is used – realising for consumers the value of the opportunities created by the rollout
- Complements DECC programme objective to deliver more direct benefits of smart metering

Approach

- Our aim is to develop a long-term strategy, including a **roadmap for reform** supported by a **work programme**
- We will do this by:
 - Identifying ways in which rollout requires or enables change to how energy markets operate
 - Developing a consistent analytical framework to assess the value of potential changes for consumers and markets
 - Facilitating the delivery of changes to how markets operate that best serve the interests of consumers

Scope

- Covers any aspect of how energy markets operate that must or may change as a result of smart meter rollout and where changes could deliver material benefits for consumers
 - Focus on retail market but significant links to wholesale market and network regulation
 - Focus on where/how regulatory frameworks are integral to change
 - Focus on continuing to safeguard consumer interests

Category	Objectives	Examples
Market behaviours	<ul style="list-style-type: none"> - Promote competition & innovation - Facilitate system flexibility 	<ul style="list-style-type: none"> - ToU tariffs - Energy services - Demand-side response
Market processes	<ul style="list-style-type: none"> - Promote efficiency - Increase reliability - Facilitate market developments 	<ul style="list-style-type: none"> - Customer switching - Settlement processes

Demand-side response and ToU tariffs

- **Issue**
 - Potential value in decisions about when and how much to consume
- **Opportunity provided by smart**
 - Functionality of meter enables greater offer and uptake of ToU tariffs
 - Two-way communications
- **Benefits**
 - Opportunity for consumers to save money
 - Lower systems costs
 - Carbon savings
- **Potential barriers**
 - Settlement
 - Distribution charging
- **For consideration**
 - Commercial arrangements
 - Consumer protections

Other issues

- **Energy services**

- Expect an increase in range of energy services offered by suppliers and others to domestic and non-domestic consumers
- Important for enabling consumers to make informed decisions about their energy consumption

- **Pay-As-You-Go**

- Opportunity to re-design the framework around prepayment in the interest of consumers:
 - Remove inconvenience around topping up and switching
 - Tackle misdirected payments
 - Reduce cost-to-serve differential

Settlement

- **Issue**
 - Current arrangements based largely on estimates and profiles
- **Opportunity provided by smart**
 - Ability for meter to record half-hourly/daily consumption data
 - Improved access to reads
- **Benefits**
 - Accurate and more timely cost allocation
 - Better targeted balancing incentives
 - Facilitate product innovation
- **Potential barriers**
 - Current central and industry systems
 - Distribution charging
- **For consideration**
 - How and when any changes should be implemented
 - Potential unintended consequences?

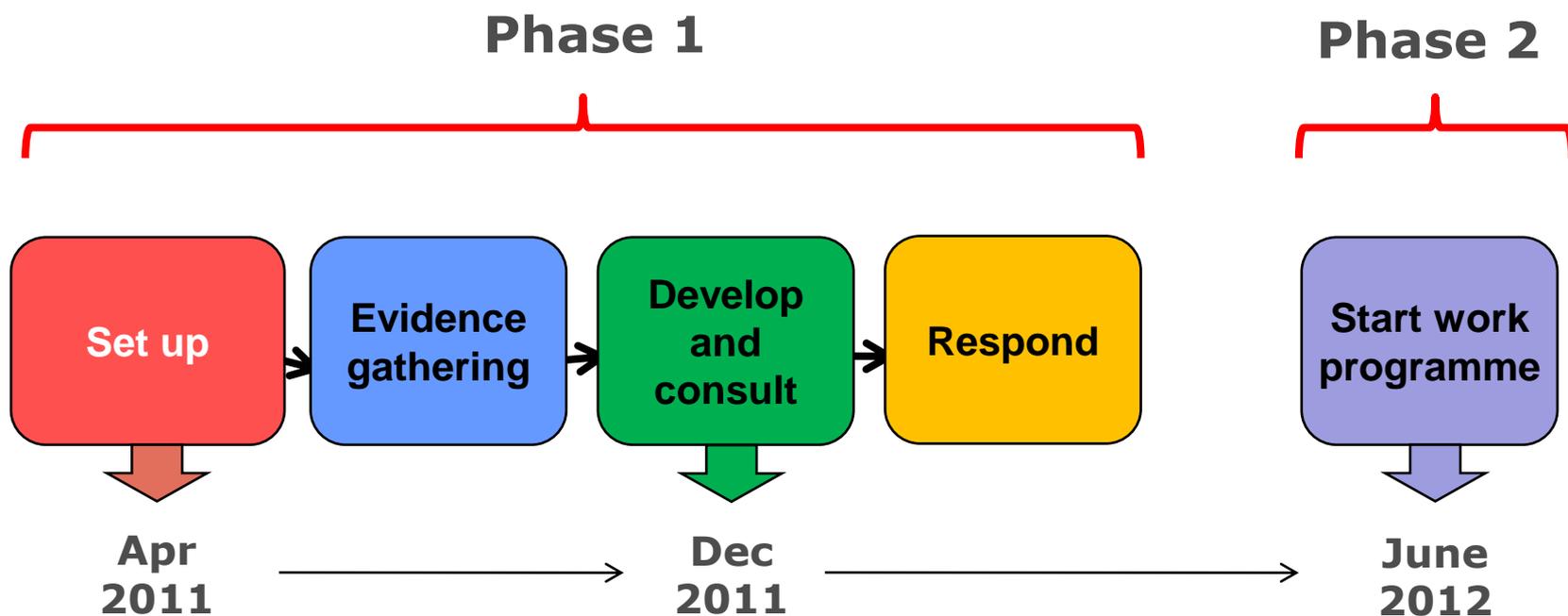
Change of supplier

- **Issue**
 - Current process is relatively slow and unreliable
- **Opportunity provided by smart**
 - Instant and agreed reads and data
 - Registration into DCC allow switching process to be streamlined
- **Benefits**
 - Better customer experience
 - Promote competition
 - Reduced transaction costs
- **Potential barriers**
 - Current central and supplier systems
- **For consideration**
 - Consumer insights
 - Objections process
 - How and when any changes should be implemented

Other issues

- Opportunity to streamline industry arrangements
- Benefits could include lower barriers to entry, reduced industry costs and more reliable services for consumers
- Areas under consideration include:
 - Customer experience on iGTs
 - Data quality
 - A retail code
 - Market entry process
 - Data collection & aggregation

Timeline



Phase 1 engagement



Ongoing engagement throughout Phase 1

Open discussion

We welcome views on:

- Objectives of project
- Scope of issues
- Guiding principles for our work
- Stakeholder engagement going forward
- Timescales of project



Panel

Colin Sausman, Partner, Smarter Markets
Neil Barnes, Head of Smarter Markets Strategy

Adhir Ramdarshan, Strategy team member
Ben Smithers, Strategy team member
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