

# Smarter Markets

## Newsletter

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### In this issue

- Introduction to the Smarter Markets Programme
- Opportunities to engage in our work
- Update on key milestones

## Welcome

Welcome to the first newsletter of the Smarter Markets Programme – our work to use the opportunity that smart metering presents to make retail energy markets work better for consumers.

We will issue a newsletter every six months. As this edition is published, the Programme is starting to gather pace. We are progressing four distinct but related projects, each of which is at a different stage of the policy process.

The purpose of our newsletters is to draw together

the different aspects of our work, giving all stakeholders an overview on progress across the Programme. In particular, we want to highlight how you can get involved. This reflects the vital role that a wide range of stakeholders will play in progressing reforms.

I hope you find this newsletter helpful.

**Colin Sausman**

Partner, Retail Markets and Research

## About the Smarter Markets Programme

The roll-out of smart metering has the potential to transform how energy retail markets operate. This can deliver big benefits for consumers, but will require complementary changes to the arrangements that govern how industry participants, including suppliers and network operators, interact with each other and consumers.

Ofgem is being proactive in helping to deliver reforms. Our ambition is for 'smarter markets' that are more efficient, dynamic and competitive, delivering better outcomes for consumers.

Following consultation with stakeholders, last July we published a work programme setting out four priority areas of reform. These priority areas are now being progressed as the first projects in the Smarter Markets Programme. The Programme will run over a number of years and is our way of managing the links between these projects, both in terms of the potential benefits that can be realised and how the necessary reforms are designed and implemented.

We have updated our website ([www.ofgem.gov.uk/Markets/sm/strategy](http://www.ofgem.gov.uk/Markets/sm/strategy)) to make it easier for stakeholders to find out about our work and track progress.

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## Smarter Markets Coordination Group

The success of our Programme will depend on the commitment of a broad range of stakeholders.

To involve them in our work, we have established an advisory group, called the Smarter Markets Coordination Group (SMCG). Its purpose is to provide strategic input to the Programme and to inform its evolution. Among other things, it will provide a forum for discussing risks to delivery of the Programme, the scope of our work and our approach to harnessing stakeholder expertise.

The group includes representatives from larger and smaller suppliers, consumer groups, network companies and the Department of Energy and Climate Change (DECC). We will also be looking to extend the membership of the group to include representatives from new entrants, including those offering energy efficiency advice to consumers.

The group met for the first time last month. All documents for this group, including the terms of reference, will be published on our website.

The SMCG is one of a number of ways in which we will be working with stakeholders to deliver necessary reforms. The last page of this newsletter provides details of other opportunities to engage in our work. For example, we will be seeking input from stakeholders on each of the four priority projects.

## The roll-out of smart metering

It is government policy that gas and electricity smart meters will be rolled out to all consumers in Great Britain by the end of 2019. Smart meters will be capable of measuring the amount of energy used in short time periods. They will also be capable of remote two-way communications. Alongside smart meters, domestic consumers will also be offered an in-home display that provides information on energy usage.

The roll-out of smart metering can deliver significant benefits for consumers. For example, it means that suppliers can read meters remotely, making it easier for them to bill consumers based on their actual consumption.

DECC is responsible for establishing the regulatory and commercial framework to underpin the smart meter roll-out. Last year saw significant progress in the development of this framework. This included the introduction of new regulations on suppliers, such as those requiring suppliers to complete the roll-out by the end of 2019. In addition, the competition is underway to appoint a new licence holder that will be responsible for managing all the messages and data transferred between domestic consumers' smart meters and suppliers or other authorised parties.

Ofgem is engaging with government in relation to smart meters by providing independent advice on regulatory issues. We are also taking on new responsibilities in relation to smart meters as the different parts of the regulatory framework are put in place.

Our Programme will help to maximise the benefits of smart metering for consumers. But it is only one of a number of activities that will help the development of smarter markets. For example, Ofgem's Retail Market Review will help to lay the foundations for smarter markets by making it easier for consumers to understand their consumption and identify a tariff suited to their needs. As a result, consumers will be in a stronger position to make use of the information from smart metering to make better choices about how they buy and use energy.

Industry will also have a key role to play in the transition to smarter markets. For example, smart metering will present opportunities for suppliers and others to develop new services, from energy efficiency advice through to smart appliances and home automation.

## Update on the Programme

The work programme we published in July 2012 explained our longer-term objective for each of the projects and described the first product that we will publish. On this page, we introduce the four projects and provide an update on progress.

### Streamlined change of supplier processes

This project concerns the processes used by industry to transfer a consumer from one supplier to another. Ofgem has an important role to play in leveraging the opportunity that smart metering presents to improve this process. Our ambition is for a fast, reliable and cost-effective process that facilitates competition and builds consumer confidence.

We will examine a number of ways in which the existing arrangements might be improved. This includes the potential for greater alignment between gas and electricity switching processes. We will also consider the scope for centralising data processing and aggregation services, which package up consumption data for settlement purposes.

Since July, we have agreed with the DECC that we will examine when and how registration could be centralised in the DCC. This expansion in the scope of our project reflects the central role that registration plays in the switching process by providing a record of which supplier is responsible for supplying energy to each metering point.

Our next step will be to convene workgroups with key industry stakeholders from May of this year to assess the options for reform. Invitations will be issued shortly and all documents relating to these meetings will be published on our website. These workgroups will be an input to our work to develop the options for reforming the change of supplier processes. We plan to publish a consultation document seeking views on these options in Q1 2014.

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### Supporting consumers

Smart metering can transform retail markets to the benefit of consumers through easy access to consumption data, innovative products and better customer service. But it can also present new challenges. This project seeks to ensure that regulation enables consumers to engage effectively in smarter markets.

We have begun to investigate how smart metering could affect consumer engagement. At a workshop in January, we discussed the risks and opportunities that smarter markets present and how existing regulatory arrangements may need to adapt. We have also kicked off analysis to explore the range of potential impacts time-of-use tariffs might have on different customer groups.

In Q3 of this year, we will publish a document that sets out for consultation our views on the extent to which existing arrangements will be fit-for-purpose in a smart world.

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### Accurate and timely electricity settlement

Settlement is the process for comparing the amount of energy that an electricity supplier has arranged to be put on to the network with the amount that their customers have consumed. Accurate and timely data from smart metering could significantly improve the quality of settlement, which in turn should encourage innovation and more efficient use of energy.

In our work programme, we undertook to identify the best process for reforming settlement arrangements. As an input to our thinking, we asked the Balancing and Settlement Code Panel, as the body responsible for overseeing settlement rules, to scope out a project for how it would develop and deliver reform. A report on their proposed approach was submitted to Ofgem in December. We are grateful for the Panel's report and the contribution stakeholders made to its development.

In March of this year, we will publish an open letter setting out how to progress thinking on longer-term reform.

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### More flexible electricity demand

Demand-side response (DSR) refers to changes that consumers make to their energy use to help manage the electricity system. Smart metering can make it easier and cheaper for consumers to be rewarded for adapting their use, helping to reduce bills and enhance security of supply.

Since July, we have conducted research into how current market arrangements might get in the way of efficient use of DSR. To test our developing thinking, we are attending work stream six of the Ofgem/ DECC Smart Grids Forum, Sustainability First's Smart Demand Forum and Ofgem's Demand-Side Working Group. In March, we will publish a consultation document to seek views on our findings and how any potential barriers to efficient use of demand-side response might be addressed.

Many other parties are already researching DSR issues. Ofgem held a workshop in November last year to promote sharing of this research and to help incorporate this research into Ofgem's wider work on DSR.

## Next steps

Each newsletter will look ahead over the coming year to highlight opportunities to engage in our work and major Programme milestones. After a period of internal planning and analysis, in 2013 we will extend our engagement with stakeholders across all projects.

If you would like further information on how you could get involved with the Smarter Markets Programme, or have any questions, please email: [smartermarkets@ofgem.gov.uk](mailto:smartermarkets@ofgem.gov.uk)

## Key milestones

March 2013	Demand-side response consultation	This consultation will describe any problems with existing market arrangements that could hinder the development of a market that delivers efficient demand-side response.  We would like stakeholders to provide their views on these issues and to describe any that we have not identified. We will also invite views on the respective roles of Ofgem and industry participants in resolving these issues.
March 2013	Electricity settlement open letter	This letter will set out how to progress work to deliver reform of settlement arrangements. This includes the role that Ofgem needs to play to protect the interests of consumers.
May - September 2013	Change of supplier workgroups	We will be holding workgroups with key industry stakeholders to assess the options for reform. These meetings will take place between May and September 2013. The aim of the workgroups is to assist Ofgem in identifying proposals for consultation, due in Q1 2014.
Q3 2013	Consumer empowerment and protection consultation	This document will set out for consultation our views on how the current regulatory framework may need to change in a smart world and how potential changes can be progressed.
Q4 2013	Demand-side response decision document	We will follow up our March consultation with a publication aiming to achieve consensus on the key challenges around market development. We will also describe when and how we think these challenges can be addressed, whether through existing or new work by Ofgem, industry or others.

### Feedback?

We welcome views on any of the topics covered in this newsletter or how it can be improved. If you have any comments, please email: [smartermarkets@ofgem.gov.uk](mailto:smartermarkets@ofgem.gov.uk)