

Smarter Markets Newsletter

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Welcome

Smart metering could transform how energy retail markets operate. This is an exciting opportunity that can give consumers real benefits. The Smarter Markets Programme is our way of helping to maximise the benefits of smart metering for customers.

A great deal of work has been going on across the four projects in the Programme and I welcome the opportunity to give you an update on what has been happening in this, the second issue of the Programme's biannual newsletter.

The success of the Programme will depend on the support of a wide range of stakeholders. To this end I have been greatly encouraged by the number of stakeholders who are taking up the opportunities to engage with us. This newsletter highlights further opportunities to get involved.

I look forward to working with you.

Maxine Frerk

Partner
Retail Markets and Research

Programme update

Our ambition is for smarter energy markets that are more efficient, dynamic and competitive, delivering more for consumers.

Fundamental to realising this vision will be the roll-out of gas and electricity smart meters to every home and business by the end of 2020. The Department of Energy and Climate Change (DECC) is responsible for developing the regulatory and commercial framework that underpins the smart meter roll-out. This framework is coming together, particularly with the recent appointment of the Data and Communications Company (DCC) - the organisation that will be responsible for managing communications between smart metering equipment in domestic consumers' homes and authorised data users. With increasing clarity on the regulatory and commercial framework for smart meters, now is the right time to consider the wider implications for energy retail markets.

We have established the Smarter Markets Programme to help realise the opportunity that smart metering presents to make retail energy markets work better for consumers. We believe that without complimentary changes to existing market arrangements, the market may not develop as much as it could. We have identified four priority areas of reform which are the four projects we are currently undertaking within the Programme:

- Change of supplier processes
- Electricity settlement arrangements
- Regulatory and commercial framework around demand-side response
- Arrangements for consumer empowerment and protection.

This Programme complements areas where industry is already taking forward initiatives that will support the move to smarter markets. This includes code modifications which, if approved, would extend the categories of party settled using actual half-hourly data to large domestic/micro business customers (Balancing and Settlement Code Modification P272) and reform to gas settlement (Project Nexus). We are also involved in these work areas and will take the final decision on these modifications in due course.

To involve stakeholders in our work, we have established the Smarter Markets Coordination Group (SMCG). This advisory group met for the second time in May 2013. The discussion focused primarily on the change of supplier project, and in particular, views on the core features and requirements of a switching process in the future. Members suggested that there should be a focus on what the consumer wants from a switching process and we confirmed that the case for reform would be built using a number of information sources including consumer research. It was also recognised that there could be some improvements made to the change of supplier process irrespective of smart meters. The SMCG also discussed the public milestones of major reforms that are relevant to the work of the Smarter Markets Programme.

The composition of the SMCG is made up of a broad range of stakeholders. To ensure the interests of business consumers are represented, we have recently asked two non-domestic consumer organisations to join the group. The next meeting is in October.

If you would like further detail, the minutes for each of the SMCG meetings, together with the accompanying documents that are discussed, are published at: <https://www.ofgem.gov.uk/smarter-markets-coordination-group>

Project progress report

Issue one of the Programme Newsletter introduced the four projects that we are currently progressing as part of our Smarter Markets Programme. In this issue we provide an update on the progress of each of these projects.

Change of supplier process

We are currently examining how the existing processes used by industry to transfer a consumer from one supplier to another can improve. The longer-term objective for this project is for a change of supplier process that is fast, reliable and cost-effective and which will facilitate competition and build consumer confidence. As well as making the process more robust and quicker for consumers, we are looking at the potential for greater alignment between the gas and electricity switching processes to streamline it.

To help us develop the options for reforming the change of supplier process, we have established the Change of Supplier Expert Group (COSEG). This group, which includes representatives from the industry, consumer groups and DECC, had its first meeting in May and since then has met a further four times. In these discussions we have reviewed a number of areas of the transfer process, including the objection process, the cooling-off period, centralising registration, and related data quality and billing issues. We have also presented and discussed options for how these areas may be improved. It is anticipated that COSEG will continue to meet until October this year.

Feature 1: Stakeholder views from COSEG

The transfer processes in the gas and electricity industries have some similar core features, but are significantly different in their detailed design. COSEG has been exploring options to shorten the time available to block transfers in gas and electricity and to remove dependencies on the exchange of data between electricity metering agents.

In the gas market COSEG has also considered other ways to shorten the change of supplier process.

Other reforms COSEG has been looking at include improving the reliability of the transfer process by, for example, reducing erroneous transfers through placing stronger obligations and incentives on suppliers.

Early indications from COSEG discussions suggest that some benefits can be delivered through changes to existing arrangements, while others will require more fundamental changes. For example, centralising and aligning the gas and electricity registration processes under the new DCC is likely to require changes to the ownership and governance of these systems, which are currently run by network companies.

We are also doing some consumer research to help understand what domestic and non-domestic customers want from the change of supplier process. If you are interested in finding out more about this research, the findings from the domestic consumer research were presented at our last COSEG meeting on 28 August and a copy of the slides can be found on our website. Looking at change of supplier experiences around the world and in other industries will also inform the development of the reform options.

In Q1 2014 we plan to publish a consultation document seeking views on the options for reforming the change of supplier process. The consultation will be accompanied by an impact assessment that will provide information to support the analysis of the reform options. We will be asking stakeholders to give their views on the options presented and to identify any other options that should be considered.

Demand-side response

Some electricity customers save money by adjusting the amount of energy they consume from the grid at particular times in response to a signal. This is referred to as demand-side response (DSR). Our objective for this work is to ensure that the market environment supports DSR use across the system, where it is cost effective.

On 30 April 2013, we published a consultation that asked whether the current regulatory and commercial arrangements might constrain the development of DSR. The consultation closed on 28 June and we were encouraged by the 47 responses we received from a broad range of stakeholders. Along with industry associations and larger suppliers, we received contributions from a number of energy services companies, think tanks, network operators and consumer representatives.

We are currently reviewing the responses, which will feed into a decision document that we will publish in Q4 2013. This will provide an update on the challenges and priorities we identified in our consultation. The document will also describe a road map for future work on DSR.

There are a number of other initiatives being taken forward on DSR by Ofgem and other parties. To help make sure our DSR project is linked in with this work, we continue to actively attend relevant working groups including Work Stream Six of the Ofgem/DECC Smart Grids Forum and Sustainability First's Smart Demand Forum.

Electricity settlement

In March 2013 we published an open letter setting out the way forward on electricity settlement reform within the context of our longer-term objective for arrangements that use smart metering data to allocate energy in an accurate, timely and cost-effective way. This letter described our intention to scope out in more detail the problem that may require changes to existing arrangements and how best to address this problem. The open letter also made clear that our focus for this project is on the arrangements for allocating energy volumes to suppliers set out in the Balancing and Settlement Code.

In the first stage of this scoping phase, we are exploring the potential for smart metering to improve the performance of the settlement arrangements. Building on earlier thinking, we are seeking to identify all potential benefits of smart metering on settlement, explore the materiality of each benefit where possible and explore the extent to which change is needed for the benefit to be realised. We are also looking at the potential for longer-term market developments to change what settlement needs to deliver to support effective operation of the market.

To inform our thinking we have talked with a range of stakeholders in meetings and a workshop. The workshop held on 9 July was well attended by a broad range of interested stakeholders including suppliers, network companies, consumer groups and demand aggregators.

Feature 2: Stakeholder views from electricity settlement workshop

Attendees at the workshop broadly agreed that smart metering could improve the accuracy of volume allocation, as well as reduce the complexity and timescales of the settlement arrangements. Reflecting on the potential benefits for consumers, some attendees argued that such improvements could make the market more competitive, for example by reducing barriers to entry for potential new market participants. Attendees also suggested that operational costs for suppliers could fall, which could lead to lower bills for consumers. However, while recognising the potential benefits of more accurate settlement, some delegates raised concerns over the potential impact on how suppliers bill consumers. Some attendees also suggested half hourly settlement could present new risks for suppliers in terms of how they forecast energy.

Attendees were also asked to discuss the factors that could change what settlement needs to deliver to support effective market operation. Many highlighted that the accuracy of settlement could have an important role to play in realising the opportunity that smart metering presents to open demand-side response up to a wider range of consumers. Another factor that was identified by attendees was the potential increase in the uptake of microgeneration. Should this occur, it could impact on the accuracy of volume allocation and hence the operation of the market, which might require changes to the rules relating to settlement of microgeneration. In addition, attendees suggested that regulatory change, such as discussions at the European level to reduce the settlement period, could impact on settlement arrangements in the future. Reflecting on the potential for these and other factors to arise, delegates highlighted the need for, and potential to design settlement arrangements that are flexible for future developments.

We plan to hold a second workshop in the Autumn to present our developing thinking on the problem that may require changes to the current arrangements. We also intend to seek stakeholder views on the approach to progressing reforms.

In the March open letter we set out our intention to publish a consultation document seeking views on our understanding of the problem and proposed approach for addressing it. We are keeping the need for this document under review, subject to views received from stakeholders. This will allow us to progress work more quickly if appropriate.

Empowering and protecting consumers

We recognise that smart metering presents both opportunities and risks for consumers and the objective of this project is to have regulatory arrangements that protect and empower consumers so that they can participate effectively in smarter retail energy markets.

Our thinking on these issues has been developed with input from a wide range of stakeholders, building on the Consumer Empowerment and Protection Workshop that we held in January this year. At this workshop, stakeholders highlighted risks and opportunities across a range of topic areas, including but not limited to, consumer engagement, smart pre-payment, data access and use, and time-of-use tariffs. Product and service innovation, and considerations for specific consumer segments such as small businesses were also covered.

We are now starting to group and prioritise the risks and opportunities identified, and are developing a work plan to address these. Work has also started on analysis of the potential impacts of time-of-use tariffs on different types of consumers. We are also looking at existing arrangements and considering whether these will need to be adapted in order to empower and protect consumers in a smart world.

We are continuing to collect views on these issues from interested parties and in December 2013 we will publish a consultation document that will set out our thinking on prioritised risks and opportunities for consumers and the extent to which existing arrangements will be fit-for-purpose in a smart world.

Next steps

We value stakeholder engagement with our work. In each newsletter we look ahead over the coming months to highlight key milestones and opportunities to engage across the Programme's four projects and other related work areas.

Key milestones

Year	Date	Milestone
2013	Q4 2013	Electricity settlement Autumn workshop / Consultation document if appropriate
	Q4 2013	Balancing and Settlement Code Modification P272 (outside of the Smarter Markets Programme)
	Q4 2013	Consumer empowerment and protection consultation document
	Q4 2013	Demand-side response conclusions document
2014	Q1 2014	Change of supplier consultation document

To continue to track the progress of our Smarter Markets Programme you can visit our website:

<https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/smarter-markets-programme>

If you would like further information on how you could get involved, or have any questions, please email: smartermarkets@ofgem.gov.uk

Feedback

We welcome any view on any of the topics covered in this newsletter or how it could be improved.

If you have any comments, please email: smartermarkets@ofgem.gov.uk