

Smarter Markets Coordination Group – Meeting 3

Minutes of the third meeting of the Smarter Markets Coordination Group.	From	Ofgem
	Date and time of Meeting	28 October 2013
	Location	Ofgem, 9 Millbank

1. Present

- 1.1. A full list of those who attended is given in appendix 1. There was severe travel disruption on the day of the meeting, so arrangements were made for members to join the meeting by teleconference.

2. Welcome

- 2.1. The Chair, Maxine Frerk (MF) (Ofgem), thanked everyone for their attendance in person and on the phone.

3. Update on the Smarter Markets Programme and related work areas

- 3.1. Grant McEachran (GM) spoke briefly to the Programme update which was circulated to members in advance of the meeting. He particularly highlighted the Demand Side Response (DSR) update as the other items will be covered by the meeting's agenda. The DSR consultation attracted [47 responses](#) which are now available on Ofgem's website, and Ofgem will publish a response document and next steps for DSR in December.
- 3.2. GM also highlighted that Ofgem has invited three organisations to join the SMCG, the Federation of Small Businesses, Major Energy Users Council and the Data and Communications Company.
- 3.3. 3.3 At the last meeting of SMCG, a request was made for an update on gas settlement reforms being led by industry. Martin Baker (MB) from Xoserve introduced a presentation on the progress of these reforms. He explained that proposals on the shipper requirements developed by Project Nexus should be submitted to Ofgem for decision by the end of 2013, and that an Ofgem decision is anticipated in Q1 2014, to enable implementation in October 2015. They will be taking an updated delivery plan to the next Stakeholder Forum in February 2014, and expect to award the design, build and implementation contract in April 2014, subject to the decision on the modifications.
- 3.4. 3.4. MB explained that Xoserve are exploring how to put in place robust governance arrangements for both the planning and implementation of this work, and are proposing to use existing governance arrangements where appropriate.
- 3.5. Richard Sweet (RS) asked what other risks could impact the delivery timescale. MB said that there are a number of ongoing projects that could impact on Xoserve's resources, including the European code changes and the Ofgem review of Xoserve, and a decision may need to be taken about how to prioritise this work.
- 3.6. RS agreed that looking at the approach proposed for designing robust governance arrangements was sensible, and suggested that the skills required would be different to those traditionally required by code modification changes, for example there would be more of a requirement for IT expertise. In response to a question from Katherine

Marshall (KM) about using existing arrangements, MB agreed that this was preferable but would require cooperation from existing bodies as Xoserve could not compel this.

- 3.7. Sharon Johnson (SJ) said it was important to secure industry wide buy-in and resource for the arrangements, and suggested that the terms of reference for the DECC's three smart metering governance groups, the SMCG, TBDG and IMF, as a possible model.
- 3.8. MF emphasised the importance of getting these arrangements right and encouraged members to send suggestions and views to MB.

4. Smarter Markets Vision

- 4.1. GM introduced the draft smarter markets vision and explained that he was seeking views from the SMCG. He set out the purpose of the vision, which looks at the drivers of the SM Programme, and represents at a high level what we want to see in a future market which delivers better outcomes for all consumers. He noted that the vision would be useful in helping to consider if new areas should be brought into the Programme by assessing if they will help contribute to the achievement of the vision.
- 4.2. Chris Harris (CH) welcomed the vision, and described it as "spot on". He suggested the empowered box should include product switching as well as supplier switching. He also suggested that access to competition should be included as one of the challenges on the left hand side of the context slide, and that RMR should be seen as a foundation for a smarter market but that it needs to be possible to move on from it.
- 4.3. Fiona Cochrane (FC) also expressed support for the vision, and stressed that the RMR principles of 'simpler, clearer, fairer' needed to remain in the smart vision, as this is vital to ensure that all customers could benefit. She highlighted that research suggests customers look to reduce demand before they consider switching, so efficiency and price would remain key issues for consumers.
- 4.4. RS noted that efficiency could be considered in a wider sense covering issues such as the scope for suppliers to achieve back-off savings.
- 4.5. Audrey Gallacher (AG) also supported the focus on efficiency. She noted the importance of having a well-functioning market, where the costs of service were fair. She also noted that this extended to the role of regulation in the market.
- 4.6. Ashley Pocock (AP) recognised that competition is included in the vision but suggested that this should be represented as a central foundation rather than one of many outcomes. He also asked if a checkpoint would be included to assess how far the vision is being achieved.
- 4.7. Allen Creedy (AC) suggested that energy efficiency needed to be higher profile in the vision, and explained that members of the FSB are engaging with energy companies and government to understand how they can contribute to reducing energy demand. They are keen to ensure that their members are empowered to play a much needed role in delivering demand reduction.
- 4.8. GM agreed with the importance of energy efficiency and highlighted where it is currently represented in the vision, but recognised that this could be drawn out more explicitly.
- 4.9. Peter Olsen suggested that it may be ambitious to hope that consumers will find the market 'exciting' and that dynamic may be a more appropriate description. GM said he would consider this comment, but that from a presentational perspective there were benefits in having four E's, empowered, engaged, efficient, exciting.

- 4.10. CH suggested that there was a possible contradiction between simplicity and cost reflectivity and asked if the vision favoured one over the other. MF responded that, when Ofgem is taking policy decisions, these issues need to be balanced on a case by case basis.
- 4.11. TC commented that she would like it to include a sense of when the vision should be achieved, and that this was important for communicating the vision externally. CH suggested that there could be milestones that sit behind the vision. GM explained that Ofgem had considered including a target date, say of 2023, a few years after the end of the rollout, but that a lot of the vision should be delivered before then so they did not want to dampen ambition and expectations.
- 4.12. KM asked if there was a way to weave in the work being done on the retail market indicators which will represent success measures on the way to the achievement of the smarter markets vision. AP suggested that a roadmap could also include work on community energy and demand side management.
- 4.13. GM thanked everybody for their comments which will influence the further development of the vision. He noted that while he was keen that the vision remained high level and simple, he had started to consider mapping out the roadmap that could sit alongside this vision and would consider the comments from the SMCG in the development of this as well.

5. Electricity Settlement

- 5.1. Johnny Amos (JA) presented on the progress of the electricity settlement project, and explained that he was seeking comments on Ofgem's initial view on the problem that may require changes to the existing settlement arrangements and the proposed approach to progressing reform.
- 5.2. JA highlighted that outside of the Programme, Ofgem would shortly publish a draft Impact Assessment and minded-to position on Balancing and Settlement Code Modification Proposal 272, which proposes to mandate half-hourly (HH) settlement for consumers in Profile Classes 5-8 (generally larger non-domestic consumers) from April 2015. Sharon Johnson (SJ) queried if Ofgem's decision on the modification would take account of the longer-term work being progressed under the Smarter Markets Programme. She suggested that it could be more costly if suppliers need to make system changes to implement P272 for 2015 and then make further changes subsequently to deliver settlement reform for other consumers.
- 5.3. JA explained that under code governance arrangements, Ofgem is required to make a decision on the modification that has been proposed. He also noted that all consumers in Profile Classes 5-8 will have meters that can record actual HH consumption data from April 2014, while other consumers will not have these meters until the end of the roll-out. MF explained that the issues that SJ raised will be discussed in the draft impact assessment, and Ofgem welcome views on the evidence that will be presented.
- 5.4. JA returned to the presentation and highlighted the extensive stakeholder engagement that Ofgem has undertaken. From this work Ofgem has concluded that the current arrangements have a detrimental impact on market operation because of the need to estimate consumption in each half hour for meters that are not settled on actual half-hourly metering readings. He also explained that Ofgem's initial view is that the focus of the next stage of work (from Q1 2014 onwards) should be on identifying and assessing the options for using HH data for settlement of metered consumption.
- 5.5. CH suggested that companies are not currently investing in infrastructure that would make use of more accurate settlement data because of restrictions around access to consumption data introduced by the Department of Energy and Climate Change. MF

said the onus was on suppliers to make the case to customers about benefits they could realise from giving their suppliers access to detailed granular consumption data. She also recognised that using HH in settlement could have implications for the existing data privacy framework that would need to be considered.

- 5.6. TC suggested that the project should focus on what the most beneficial settlement arrangements are for consumers, and that any subsequent changes, for example, on the data privacy laws, could follow from that lead.
- 5.7. AP agreed with the suggestion that Ofgem should focus on using HH data in settlement. He emphasised that it would be helpful to map the process for transitioning to any new arrangements, to help manage industry expectations. He also suggested that the next stage of work should consider the issues that arise if suppliers elect to move some consumers to HH settlement under the existing arrangements.
- 5.8. SJ welcomed the ambition of approach suggested, and agreed that it was positive to look at using HH data. She also stated that there is uncertainty around the extent to which HH settlement is needed. Therefore, she advocated that a flexible approach to reform is adopted, suggesting that scenario analysis could help to understand the costs, benefits and risks associated with different models of using HH data in settlement and the timing of their implementation.
- 5.9. RS asked if reviewing the timescales for allocation was still in scope, or if it was not out of scope because of the focus on HH. JA stated that the timing of submission of HH data to settlement could be an important consideration in working up the range of options for using HH data in settlement.

6. Consumer Empowerment and Protection consultation

- 6.1. Bart Schoonbaert (BS) reminded members of the long-term objective of the consumer empowerment and protection project to ensure regulatory arrangements are in place that empower and protect consumers to participate effectively in smarter retail energy markets, recognising the opportunities and risks involved.
- 6.2. BS set out the proposed focus areas of the project, and the three stages that these have been grouped under: foundation; innovation; and emerging market models. Ofgem will publish a consultation in December, and he welcomed views from SMCG members on the proposed focus areas, grouping and prioritisation.
- 6.3. FC queried why the smarter debt prevention and management focus area was in the final phase and suggested this should be looked at earlier to 'future proof' arrangements. TC shared this concern, and said that DECC would be looking to Ofgem to monitor debt practices and arrangements from the beginning of the rollout.
- 6.4. AG commented that Consumer Futures were positive about the approach proposed to date, but echoed concerns about the timing of the smarter debt prevention and management work. She suggested that this work could be broken into two areas, initially focussed on protection and monitoring followed by a review of how arrangements have adapted later in the rollout.
- 6.5. BS explained that Ofgem will be continuing to monitor social obligations including debt prevention and management practices throughout the rollout but that it is important to understand how these practices have evolved to consider if the regulatory arrangements need to change later in the rollout.
- 6.6. KM suggested that the workplan needs to tie in with considerations of affordability and specifically Ofgem's Consumer Vulnerability Strategy, and BS agreed that this is critical

and that Ofgem expects companies to embed their responsibilities to support vulnerable consumers throughout their work.

- 6.7. KM commented that there is the potential for smart solutions to tackle some of the perceived stigma around prepayment and BS agreed, noting that this is one of the reasons that prepay is included in the first phase of work.
- 6.8. BS returned to the presentation and explained that Ofgem has commissioned a distributional analysis of the potential effects of time-of-use tariffs on customers' bills. Ofgem hopes to include any relevant and meaningful insights in the December consultation paper, BS explained.

7. Change of Supplier reform options

- 7.1. Andrew Wallace (AW) explained that the Change of Supplier Expert Group (COSEG) has met for seven full day workshops since the last SMCG, and has helped Ofgem to identify key reforms to the change of supplier process. He thanked those individuals and organisations present who had contributed to the work of COSEG.
- 7.2. Responding to a question from FC about the timing of reforms, AW explained that the impact assessment sought to identify if there were benefits from introducing much reduced switching times through centralised registration or if they could be introduced separately, and potentially sooner.
- 7.3. MF welcomed that attention from Ofgem and government had increased the focus on improving the change of supplier process within energy suppliers. She said that industry should review, with sufficient will and resource, if they could progress these reforms more quickly.
- 7.4. CH noted that clarity was needed on the cooling off arrangements from government. He noted that transfers within the 14 day cooling off period could result in a higher rate of erroneous transfers.
- 7.5. AP said it was important to pursue the quick wins now and deliver them as soon as possible. KM agreed and stressed that they should not have a detrimental impact on reliability. CH commented that the current objections process does not work well and industry must take steps to reform it.
- 7.6. AG understood the need to do an impact assessment of proposed reforms but warned against a cautious approach to cost/benefit analysis if this negatively impacted the ambition of the reform. She also commented that Consumer Futures is sceptical about relying on industry self-governance for reform of billing standards. She noted that they would be looking for something stronger in this area.
- 7.7. AW moved on to ask if the group agreed with the proposed approach to assess the impact of within-day, next day and 5 day transfers. SJ asked if the proposed approach would assess the additional risk of faster options, and MB asked if the Request for Information was designed to seek views on the relative risk and merits of faster switching times. AW said that Ofgem would welcome these views in returns.
- 7.8. MF commented that while consumer research emphasised reliability over speed today, Ofgem's view was that we should build a system that is 'future proof' so unless the risks or costs are greater under different scenarios, we should favour the quickest option. AG agreed and said the reform process should not be inhibited by current low customer expectations.
- 7.9. AW introduced a new reform proposal that has been developed after the COSEG meetings had closed. This was to tighten up the current three week switching licence

condition. This follows soon to be implemented changes to the gas arrangements that remove barriers to suppliers meeting this standards as well as Ofgem's monitoring which shows a wide variation in supplier performance.

- 7.10. AW sought views from the group on how to accelerate the timetable for reform.
- 7.11. SJ asked at what point industry could submit a change request to the SEC to require the DCC to deliver a central registration service. AW noted that will be meeting with the DCC shortly to seek its views on this question.
- 7.12. SJ commented that data cleaning was also very important for reliability, and AW noted that one of the reforms is to strengthen the obligations on parties to update central data.
- 7.13. Julian Anderton (JA) reiterated that clarity on cooling off arrangements was key to cutting timescales as this currently accounted for 2 of the 5 weeks that the process currently took.
- 7.14. Wrapping up the discussion, MF stressed the importance of moving forward with quick wins as soon as possible, in advance of the March 2014 consultation.

8. Wrap up and date of next meeting

- 8.1. MF thanked all the attendees for their contributions. The next meeting of the SMCG will be in February 2013.

Attendees

Alex Travell*	E.ON Energy
Allen Creedy*	Federation of Small Businesses (FSB)
Andy Bard*	Gemserv
Ashley Pocock	EDF Energy
Audrey Gallacher*	Consumer Futures
Chris Harris	RWE npower
Chris Welby*	Good Energy
David Jones*	Elexon
Ed Reed*	Cornwall Energy
Fiona Cochrane	Which?
Julian Anderton*	Energy UK
Katherine Marshall	SSE
Martin Baker	Xoserve
Paul Bircham*	Energy Networks Association
Peter Olsen*	Corona Energy
Richard Sweet	Scottish Power
Sharon Johnson	British Gas
Simon Hill*	Opower
Teresa Camey	Department for Energy and Climate Change

Ofgem: Maxine Frerk (Chair), Kate Masri, Grant McEachran, Andrew Wallace, Bart Schoonbaert, Shona Fisher, Johnny Amos (for item 4), Jonathan Priestly (for item 4), Jeremy Adams-Strump (for item 4)

*These members joined the meeting by teleconference