

## Smarter Markets Coordination Group – Meeting 4

Minutes of the fourth meeting of the Smarter Markets Coordination Group.

From:  
Date and time of Meeting:  
Location:

Ofgem  
4 February 2014  
Ofgem, 9 Millbank

### 1. Present

1.1. A full list of those who attended is given in appendix 1.

### 2. Welcome

2.1. The Chair, Maxine Frerk (MF), thanked everyone for their attendance.

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

3.1. Grant McEachran (GM) spoke briefly to the [Smarter Markets Programme update](#) which was circulated to members in advance of the meeting. He thanked SMCG for the comments they made at the last meeting and since then on the Smarter Markets vision. He informed attendees that this has been updated to reflect those comments and that the final version would be published later this month alongside the next issue of the Smarter Markets newsletter. GM also informed that, in response to feedback received at the last SMCG meeting, Ofgem will develop a roadmap to sit alongside the vision which will show when each reform under the Smarter Markets Programme will commence.

3.2. GM updated on the specific projects in the Smarter Markets Programme, particularly noting the number of documents Ofgem had published in December and thanking SMCG members for responding to these under tight time constraints.

### 4. Project Nexus update

4.1. Martin Baker (MB) gave an [update on Project Nexus](#). He informed that UNC modifications UNC432 and UNC434, which would reform gas settlement, had been sent to Ofgem for consideration and that a decision is expected by 21 February. He also noted that modification UNC440 would be considered by the UNC Panel in February before being sent to Ofgem.

4.2. MB noted that industry reforms arising from EU Network Codes are scheduled to be implemented in Q4 2015 alongside Project Nexus and that Xoserve recognised the potential congestion risk this presented. He informed attendees that Xoserve was developing a set of options for handling this challenge which would seek to mitigate the congestion risk. MF highlighted that a balance needs to be struck between assessing and mitigating risks, and driving forward implementation so that deadlines are not missed. MB reassured that the aim of Xoserve's project is not to move implementation deadlines but to find mitigations where possible.

4.3. MB also confirmed the timetable on changes for the delivery of Energy UK's faster switching proposals as specified in UNC Modification Proposal 477 was not affected.

4.4. MB informed that Wipro had been identified as the preferred supplier of the new UK LINK system and that contracts are scheduled to be signed in March. He also highlighted that Baringa had conducted an independent assessment of the preferred

supplier selection process for the design, build and implement phase of the UK LINK Programme. This report also provided assurance of the programme management structure required for effective delivery.

## 5. Electricity settlement

5.1. Jonathan Amos (JA) introduced [the paper](#) circulated to members in advance of the meeting. The paper sought views on the proposed objective and scope of the next stage of the settlement project, as well as the approach we intend to take to complete this work.

### *Discussion on the proposed objective of the next stage of settlement project*

5.2. JA summarised that, based on our analysis to date, we consider that settling consumers using actual half-hourly (HH) data (rather than estimates) is likely to benefit consumers and is an important part of the transition to smarter markets. The objective of the next phase of work is to examine this viewpoint by identifying and assessing the options for using HH data from smart meters in settlement. JA invited questions and comments on this objective.

5.3. David Jones (DJ) asked if the next stage of the settlement project would build on existing analysis already conducted in this area, specifically the cost-benefit assessment which the Profiling and Settlement Review Group had conducted on moving Profile Classes 1-4 to HH settlement. JA confirmed that it was the intention to build on this and other relevant analysis such as the impact assessment on BSC Modification Proposal 272.

5.4. DJ also asked if the project was seeking to drive a solution to the existing issues with Distribution Use-of-System (DUoS) charging that can discourage suppliers from moving consumers to HH settlement. JA informed that this was not in scope of the settlement project. However, momentum is building behind Distribution Connection and Use of System Agreement (DCUSA)<sup>1</sup> modifications that would address the current issues. JA stated that Ofgem was monitoring progress and, where appropriate, is providing input to help support a robust assessment of these changes.

5.5. Noting the links between ongoing reforms to the energy market and the settlement project, Chris Harris (CH) spoke of the importance of an ordered implementation of any changes to ensure interactions are managed effectively. Making a related point, Chris Welby (CW) argued that other regulatory reforms will need to take into account the changes being considered through the settlement project in their analysis.

5.6. Attendees raised a number of points on the impact on the retail market resulting from the use of actual HH data in settlement, including on tariffs and consumers' understanding of their electricity costs. Katherine Marshall (KM) asked if Ofgem assumed that using actual HH data in settlement would lead to dynamic retail pricing that reflects the wholesale energy price. Reflecting on this, Sharon Johnson (SJ) said that it was an assumption that HH data in settlement will lead to more granular pricing and noted that an important consideration was what was proportionate and by when.

5.7. Noting the potential for more granular pricing, Allen Creedy (AC) emphasised that some non-domestic consumers are concerned about the transparency of bills. He said that it would be important to communicate how reforms progressed through the settlement project could benefit small businesses. Ashleye Gunn (AG) agreed and noted that the use of actual HH data in settlement needed to align with the principles set out in Ofgem's Retail Market Review (RMR) for simpler, clearer and fairer products.

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<sup>1</sup> Distribution Network Operators (DNOs) have developed common methodologies for connections charging and DUoS charging. These are set out in the DCUSA. Any modifications to these charging methodologies are made through the DCUSA governance process.

Paul Delamare (PD) acknowledged these points but argued that there is a balance to be struck between simplicity and complexity, warning that a focus on the former could stifle innovation. AG noted that Which? were pro-innovation but not at the expense of greater complexity. Teresa Camey (TC) also raised the importance of the alignment of RMR and the Smarter Markets work.

- 5.8. In response to these points, MF stated that the use of actual HH data in settlement would change the costs and risks suppliers face but it would be up to suppliers to decide how to pass price signals to consumers. She noted that there were a number of options for how this could be done, recognising that time-of-use (ToU) tariffs might not be suitable for all consumers. On the relationship between RMR and Smarter Markets, MF explained that RMR aims to reset the market and build consumer confidence. Once this is done consumers will be more likely to engage in innovative products which we might expect to be offered in a future smarter market. MF recognised that some consumers are not calling for more sophisticated pricing and tariffs at this moment; however Ofgem is conscious of the need to drive forward changes that will deliver a more active and engaged market. She argued that this is crucial in order to respond to future challenges including higher overall demand and more intermittent generation.
- 5.9. Discussing the transition to new arrangements, SJ called for Ofgem, as part of the assessment of options, to analyse which groups of consumers will benefit from the use of actual HH data in settlement and when these benefits can be expected to be delivered. She noted that this would enable Ofgem to take a view on when to implement reform (should a positive business case be found). Also, on the timing of the transition, PD highlighted the risk of suppliers cherry-picking certain consumers to move to new HH arrangements (should they be implemented). To address this he spoke in favour of a managed transition.
- 5.10. Eddie Proffitt (EP) expressed concern over the large volume of data which using HH data in settlement would generate and the possible cost implications of this. He queried whether there was an alternative option which would deliver similar benefits but without such significant reform. Responding to this, DJ acknowledged that using actual HH data in settlement would increase the volumes of data in settlement but compared to other sectors, particularly mobile telephony, the volumes were not unprecedented.

*Discussion following overview of scope of the next stage of settlement project*

- 5.11. Following the discussion on the project's proposed objective, JA gave an overview of the scope of the project. He highlighted that it would focus on the Supplier Volume Allocation arrangements and within these the processes for settling metered import and export sites that are currently settled through the non-half-hourly settlement arrangements.
- 5.12. CH asked if the architecture of the settlement arrangements was in scope, specifically consideration of whether the role of Elexon and the Data and Communications Company (DCC) could change in the context of using HH data from smart metering in settlement. JA confirmed these arrangements were in scope.
- 5.13. CW queried whether simplification of the market governance arrangements through consolidating industry codes was in scope of the project. JA informed that this was not explicitly in scope but noted that as a result of the reforms being progressed through the Smarter Markets Programme it was possible that there could be an opportunity to consolidate codes.

*Discussion following overview of approach to analysis*

- 5.14. JA moved on to outline the intended approach to the next phase of work. He explained that Ofgem plans to focus on two overarching areas relevant to the

development of reform options: (1) the process of obtaining and preparing consumption data for settlement; and (2) the method and timing of the transition to a new set of arrangements. He also outlined Ofgem's approach to assessing the options.

- 5.15. CH queried whether demand estimation was in scope. JA clarified that the estimation process which is in scope pertains to the process for estimating a HH value for consumption when a meter read is unavailable. He explained that this was because the current process for estimating values for existing HH sites relies on manual actions which may not be appropriate if larger numbers of sites are settled using HH consumption data. JA also stated that Ofgem does not intend to explore the options for improving profiling in the next phase of work.
- 5.16. SJ noted that the point in time when consumers take up demand-side response products in significant numbers will impact on the benefits case for using HH data in settlement. She queried whether research to assess consumer attitudes towards such products could form part of the settlement project. JA said that this could form part of the assessment of options and pointed out that work has already been conducted in his area, for instance by the Low Carbon Network Fund, which could be a useful input.
- 5.17. AG argued that the project needs to demonstrate the benefits that using actual HH data in settlement can deliver for consumers, including a consideration of the distributional impacts. Rob Church (RC) reassured that the assessment framework Ofgem develops to assess options will consider the consumer benefit resulting from reform.

## 6. Change of Supplier

- 6.1. Andrew Wallace (AW) spoke to the [slides](#) circulated in advance of the meeting which set out the roadmap for reform of the switching process and how Ofgem's and Energy UK's respective projects to improve the speed and reliability switching aligned.
- 6.2. AG noted that there was potential for confusion between the aims of Ofgem's and industry's switching reforms. AW clarified that:
- Ofgem's short-term work aims to strengthen the supplier licence obligations to prevent erroneous transfers and to ensure reliable switching occurs within three weeks once the two-week cooling off period is over (therefore ensuring all switches occur within a 5 week period at most). This is effectively a "backstop" that allows for further industry and Ofgem reforms to speed up the switching process.
  - Energy UK has developed modifications to industry codes that could facilitate faster switching in the short-term. By the middle of 2014 switching speeds are expected to fall to eight working days after the cooling-off period is complete. By the end of the year this is expected to reduce further to two working days once the cooling-off period is complete.
- 6.3. PD noted that, in bringing forward these reforms, both industry and Ofgem need to be sure that they do not create additional costs.
- 6.4. A number of points were raised in relation to the cooling-off period. Audrey Gallacher (AuG) noted that in energy the cooling-off period finishes before the customer switches to their new supplier, meaning the customer has no experience of the new product during the time period when they are allowed to cancel. She called for switching to take place within the cooling-off window to give them this experience. AW supported this view and said that this was consistent with the aims of a meeting of the Change of Supplier Expert Group (COSEG) that Ofgem had called for 26 February.

- 6.5. AW explained the impact of the new cooling-off arrangements which would be in place by June 2014. He qualified that parties should not rely on this interpretation and would need to take their own legal advice. He said that the cooling off period was 14 calendar days and could not be waived. The cooling off period started from when the customer agreed to enter into the contract. For the contract to be cancelled, it must be sent by the customer during the cooling off window even if it is received after that period had closed.
- 6.6. EP noted the need for clarification on any obligations on the losing supplier to take back a customer who had decided to switch but then, during the cooling-off period, decided to cancel and go back to their original supplier. AW said that this would be considered at the COSEG meeting and Ofgem were considering an amendment to the licence to help facilitate customer return. Making a related point, CW described a situation where a supplier notifies a consumer of a future price rise which prompts the customer to switch but then that customer decides to cancel their new contract during the cooling off period. He queried if the original supplier is obligated to take that customer back, and if so whether they need to offer the terms they had when they left or the new price. AW noted his expectation that a cancellation would lead to the customer being returned to their previous supplier. RC said that these “what if” scenarios were helpful to tease out now so that a regulatory framework can be built which will enable next day switching in the future.
- 6.7. AG asked for clarification on when Ofgem would decide the way forward for longer-term switching reform under the Smarter Markets Programme, AW said Ofgem expected to publish a consultation in April to seek views on the options we plan to take forward for more detailed development.
- 6.8. CW argued that to deliver next day switching, Ofgem should adopt a blank page approach to reforming the process, as adapting the current structure will be unlikely to deliver an optimal solution.
- 6.9. AC noted that in the future suppliers, through internet accounts, apps, and information on energy efficiency, will potentially hold a lot more data on consumers. He said it would be important to consider how this data will be made available to customers to help facilitate the switch in the future.
- 6.10. EP highlighted the potential for “win back” activity from suppliers during a cooling-off period if there was an easy process for the customer to return and that this could increase industry costs. Similarly, KM recognised the risks associated with a supplier trying to win back a customer immediately following a previous win back. Acknowledging these points AW said that this would also be considered at the COSEG meeting.
- 6.11. RS asked if Ofgem was planning to require suppliers to switch customers faster than the proposed three week backstop licence modification, for example in response to Energy UK’s faster switching changes. AW said that this was not expected in the short term and that Energy UK had agreed to consider a self-governance measure, similar to the switching guarantee in the banking sector. This would help to provide confidence that customers would experience the benefits of the Energy UK faster switching proposals.
- 6.12. SJ raised the issue of reporting and monitoring, noting that that suppliers currently have to send many reports to Ofgem on switching compliance. AW said that Ofgem were working with suppliers at the moment to review and agree our ongoing monitoring requirements. The aim was to ensure that this data collection was proportionate.

## **7. Wrap up and date of next meeting**

- 7.1. RC thanked all the attendees for their contributions. GM informed attendees that the next meeting of the SMCG will be in June 2014.

**Attendees**

Allen Creedy	Federation of Small Businesses
Andy Knowles	Gemserv
Ashleye Gunn	Which?
Audrey Gallacher	Consumer Futures
Chris Harris	RWE Npower
Chris Welby	Good Energy
David Jones	Elexon
Eddie Proffitt	Major Energy Users Council
Jill Ashby	Smart Energy Code Administration and Secretariat
Katherine Marshall	SSE
Lawrence Slade	Energy UK
Martin Baker	Xoserve
Paul Delamare	EDF Energy
Paul French	DCC
Ramsay Dunning	The Co-operative Energy
Richard Sweet	Scottish Power
Sharon Johnson	British Gas
Teresa Camey	Department for Energy and Climate Change
Tim Hammond*	Corona Energy

**Ofgem:** Maxine Frerk (Chair), Rob Church, Grant McEachran, Andrew Wallace, Bart Schoonbaert, Jeremy Adams-Strump, Johnny Amos (for item 4), Jonathan Priestly (for item 4)

\*Joined the meeting by teleconference