

Smarter Energy Markets Newsletter

www.ofgem.gov.uk

February 2014

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Welcome

The roll-out of smart meters presents an opportunity to make retail energy markets work better for consumers. In this newsletter, the first since I joined the Smarter Energy Markets team at Ofgem, we present our ambition for a market that is more efficient, dynamic and competitive. This is our vision for smarter energy markets.

Our vision is in two parts. First, we'll look at the main challenges that smarter energy markets can tackle, and what will bring about change. Then, we set out our view of a positive smart energy market future in which all consumers

can benefit from better basic services, and have access to new and innovative products.

We'll also use the opportunity to update you on our four projects. Many of you will have been involved in consultations and meetings with us, and we look forward to engaging with you further as the programme progresses.

Rob Church

Associate Partner,
Smarter Energy Markets

Smarter energy markets – what do they look like?

The vision is critical to the Smarter Energy Markets Programme. It will help us – and indeed everyone involved – to make the most of the opportunity presented by the roll-out of smart meters. We want to show clearly what better outcomes can be achieved for all consumers.

Our Retail Market Review introduced a series of reforms which are designed to rebuild trust and engagement through a simpler, clearer and fairer market. They lay the foundations for future engagement and innovation.

Here we set out the context for our work to build smarter energy markets. This recognises that there are currently a number of challenges facing the energy industry which impact consumers. Along with the drivers for change, the challenges represent opportunities to improve the existing arrangements.

We want to restore consumer trust, engagement and confidence through a smarter energy market, which is dynamic, innovative and efficient.

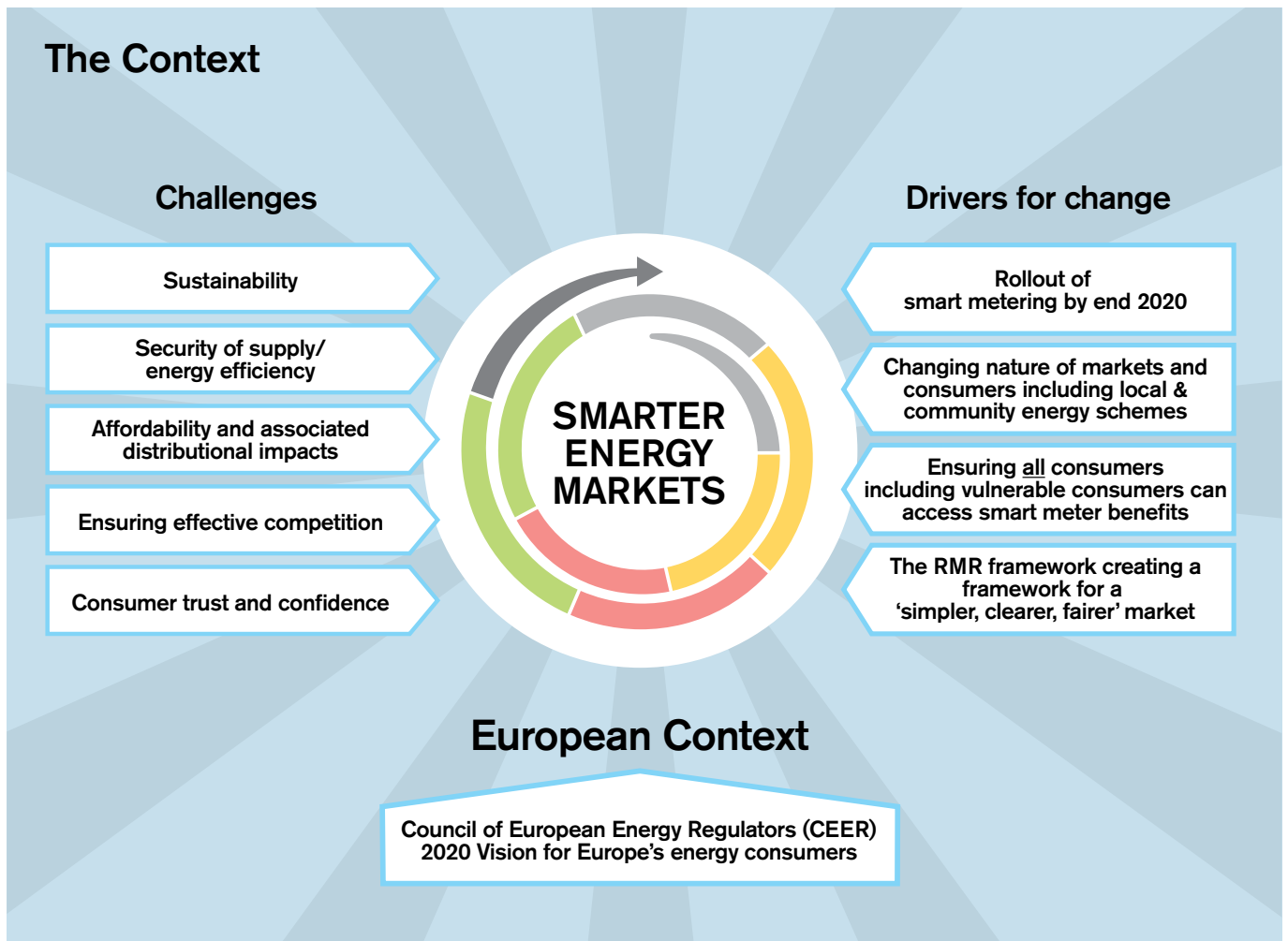
The vision represents the journey of the consumer from the present reality, characterised by mistrust and disengagement, to a “smarter energy market”, where consumers are **engaged**, are

empowered to secure better outcomes and where a **dynamic, innovative** market develops which drives greater **efficiency**. Each of the areas outlined in this vision reinforces the other, creating a virtuous circle of reform.

Not all consumers have the same needs. Some consumers will want to get involved with the opportunities presented by the roll-out of smart meters to access new services. Others just want a market where basic services are delivered more efficiently. Our vision is clear: **all** consumers can benefit from the transformation to smarter energy markets.

We have sought input from a wide range of stakeholders to help develop this vision, including our Smarter Markets Coordination Group and Sustainable Development Advisory Group.

We will now develop a Road Map to set out in more detail how the vision will be delivered, and the roles of different actors including government and industry, in realising this vision.



Delivering better outcomes for **all consumers** through the creation of **smarter markets** that are **efficient, dynamic and competitive.**

Consumers are **empowered** by a market that delivers greater visibility, clearer **information, reliable switching** and **targeted protection**



Better quality information

Easy, fast, reliable switching

Targeted protection

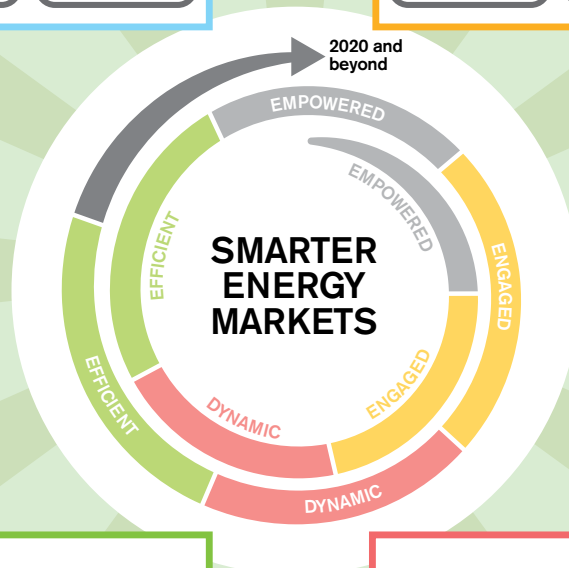
Consumers have more **control**, increased levels of **trust** and consequently are more **engaged** in the market



Changing attitudes to energy use

Alternatives are accessible.

Providers seize opportunity



Consumers and providers become more **efficient** in the way they **use energy** and **interact with the market**



Consumers save on energy bills

Improved energy efficiency

A low carbon economy

Consumers are part of a **dynamic** market with **greater competition**, more **innovation, better service, new entrants** and **new offers**



New markets
New attitudes

New forms of engagement

From Consumer to Prosumer

Continually building on the smart meter roll-out to create **smarter markets** in which **all consumers** have **confidence** and which support the **differing needs** of consumers.

Electricity settlement

We are preparing to publish later this quarter a launch statement for the next phase of the electricity settlement project. The statement will set out our position on the overall benefits of a move to half-hourly settlement which sits at the centre of a smarter energy market.

The next phase of the settlement project will assess options for using actual half-hourly consumption data from smart metering in settlement. This is in line with our ambition to explore the maximum opportunity presented by smart metering to improve the operation of the market. It also reflects our analysis of the way current arrangements, especially use of estimates in settlement, have been shown to affect market operation.

Our plans for the next phase were well received by stakeholders, including those that attended the October meeting of the Smarter Markets Coordination Group. We also held a well attended workshop in December to discuss it in detail. A note of the discussion can be found on the Ofgem website.

We sought views on these proposals at the Smarter Markets Coordination Group meeting in early February and will publish our plans for the next phase later this quarter.

Outside the Smarter Energy Markets Programme, we published an impact assessment on Balancing and Settlement Code Modification Proposal 272 ('P272') in October. P272 would mandate settlement using half-hourly consumption data for larger non-domestic consumers currently settled using estimates. In our impact assessment, we said we were minded to approve this change but recognised that parallel changes would be needed to Distribution Use-of-System (DUoS) charging arrangements to ensure that the modifications provide the right outcomes for customers.

Having considered responses to our consultation, we retain the view that P272 is in the interests of consumers and an important step in the transition to smarter markets. It can strengthen competition between electricity suppliers and support more efficient use of energy by consumers. However, to enable our decision on P272 to take account of ongoing changes to DUoS charging arrangements, we wrote to the BSC Panel on 6 February directing it to consult on a revised proposed implementation date for P272. At the same time we also published a letter which set out the importance of industry working together with Ofgem and government to deliver the changes necessary to support the realisation of smarter energy markets.

Change of supplier

Between May and October last year, we led a review of the switching process with consumer bodies, government and industry. In December we set out a road map for improving the consumer experience of switching energy supplier.

Our review identified changes that can be made in the short term to secure a reliable three-week switch after a cooling-off period for consumers. Between Q1 2012 and Q1 2013, less than 80% of changes of electricity supplier met this deadline. In gas the target was only met 20% of the time, but changes have now been made to central gas registration systems to make a three week switch possible.

Prompt and reliable switching are key to a well-functioning market. So we are proposing toughening suppliers' licence requirements to transfer customers in three weeks and to not erroneously transfer customers. These consultations closed on 31 January.

In response to the government's push for faster switching, suppliers have identified changes that can be made in the short to medium term which allow consumers to switch more quickly. So by the end of 2014, it could be possible to shorten the switching period by at least a couple of weeks. We are working with industry to achieve a faster yet reliable switching process as quickly as possible.

In the future, by building on the roll-out of smart meters it may be possible for both domestic and business consumers to move to a new supplier by the next day, or even on the same day. In addition, a new central switching service could bring together existing services in gas and electricity.

Together, all these changes would make the transfer process more reliable and efficient for consumers. For dual fuel consumers, the process would be streamlined. And the changes are likely to bring down costs for everyone.

To support our analysis of these longer term reforms, we asked industry for information on the costs and benefits of making these changes. We will analyse these and consult on reforms in spring 2014.

Consumer empowerment and protection

Our vision sets out the many benefits that smarter energy markets can deliver for consumers, including new ways to manage their energy use and expenditure, more accurate bills, and easier and faster switching. However, smart meters bring risks as well as opportunities, and we are committed to ensuring that all consumers can realise the benefits while remaining appropriately protected.

Over the last year we have engaged with stakeholders to identify the key risks and opportunities for consumers which Ofgem should explore and address. In December we published a consultation on a proposed work programme for addressing nine focus areas prioritised across three phases from now to the end of the mass rollout in 2020. It also sets out how we intend to incorporate our Consumer Vulnerability Strategy into this work, as well as our proposed approach to micro-businesses.

Our proposed first phase of work (2014-15), the Foundation phase, will focus on "getting the basics right". We will focus on three areas: prepayment, billing accuracy and options and ensuring that our reforms to deliver a simpler, clearer, and fairer energy market can work with a market where we see more time-of-use tariffs.

In spring we will publish a summary of responses to our consultation, and more detail of how we will approach the first phase of work.

Demand side response (DSR)

In December, we published conclusions from our consultation, 'Creating the right environment for demand-side response', and how we plan to take this work forward.

We had asked what regulatory arrangements were needed to encourage different parties to participate in efficient system-wide use of DSR. Creating more flexible and responsive energy demand can reduce bills for consumers, enhance security of supply and contribute to sustainable development.

Taking into consideration respondents' views, we concluded that an entirely new market model for DSR may be needed in future but is not required at this stage. However, we see an urgent need to develop a DSR framework that formalises the interactions between different parties using DSR. This would maximise the opportunities for DSR across the whole value chain: in the future we may see consumers interacting differently with suppliers, network operators or third party intermediaries. We need a framework that makes these options viable.

We are in a good position to take an industry-wide view on how to maximise value and prioritise consumer benefits. Working closely with key parties through the Smart Grid Forum Work Stream 6 group, we will assess requirements and current gaps by autumn 2014.

Other developments

Project Nexus – Industry is leading a project to reform the gas settlement arrangements, known as Project Nexus. Central IT systems that perform settlement functions in gas are being replaced, and new ones are designed to be 'smart-ready'. We are playing a key role in considering accompanying changes to industry codes.

On 21 February the Authority directed the implementation of two modifications – Uniform Network Code (UNC) 432 and UNC434 – that have emerged from Project Nexus. These modifications focus on improvements to data management and settlements. The new systems are scheduled to go live on 1 October 2015. These, and other system changes such as those giving effect to Energy UK's proposals for faster switching, will deliver tangible consumer benefits.

We recognise that the scale and pace of change will present challenges, requiring industry parties and central

bodies to work closely in order to effectively manage this programme of work and deliver them in line with the agreed timescales.

Performance Assurance – Our assessment of the Project Nexus modifications has reinforced the reliance of such systems on the timeliness and quality of data feeding into them. The implementation of Project Nexus means that the industry will be well placed to realise the full potential of smart metering, though we consider that an appropriate performance assurance regime will be required in order to ensure there are appropriate incentives. Such a regime should assure the effectiveness of key industry arrangements, including customer facing issues such as transfers, as well as the accuracy of functions such as settlement.

We are actively involved with an industry-led project to develop a gas performance assurance regime.

2014 at a glance

We value your views and involvement with our work. In each newsletter, we look ahead to the coming months for any milestones and opportunities where we would like your input in the Programme's four projects, and other related work areas.

Key milestones

2014	Milestone
Spring	Launch statement for next phase of electricity settlement project
	Consultation on change of supplier reform options
	Publish consultation responses and work programme under consumer empowerment and protection project
Autumn	Decision on taking forward reform of change of supplier process

To continue to track the progress of our Smarter Energy 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