

## Smarter Markets Coordination Group – Meeting 5

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Minutes of the fifth meeting of the Smarter Markets Coordination Group.	From:	Ofgem
	Date and time of Meeting:	19 May 2014
	Location:	Ofgem, 9 Millbank

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### 1. Present

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

### 2. Welcome

- 2.1. Grant McEachran (GM), thanked everyone for their attendance and welcomed two new members to the groups; Sarah Bell of the UK demand response association (UKDRA) and Louise Murphy of SSE.

### 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 informed attendees that the smarter markets [vision](#) is now completed and published on our website. GM also informed that Ofgem is now developing a roadmap to sit alongside the vision which will show when each reform under the Smarter Markets Programme will commence and will be available for the next SMCG meeting.
- 3.2. Alex Travell (AT) asked about the proposed level of detail in the road map. GM explained that the roadmap is linked to the smarter markets work plan which is useful in explaining information in a simplified way that highlights how engaging fits in.
- 3.3. GM updated on the specific projects in the Smarter Markets Programme, particularly noting the consumer empowerment and protection consultation responses that Ofgem received in February which Ofgem is in the process of considering before publishing the work plan and next steps in the summer. He also noted the forthcoming consultation document on the change of supplier project which will be published in June. GM also stressed on SMCG members to take this opportunity to signal any views they have on Ofgem's proposals. He also noted that Ofgem has now published a report by the Centre for Sustainable Energy (CSE) which considers the potential impacts on domestic electricity customers of the introduction of new time-of-use tariffs (ToU).
- 3.4. Eddie Proffitt (EP) queried about the links between DSR and the work that is being done by National Grid on balancing. GM explained that it is Ofgem's intention to ensure that all relevant efforts are considered and coordinated.
- 3.5. AT asked about future plans for distributional analysis. GM confirmed that this work would be linked to progress on future policy area i.e. to test the distributional impacts of specific proposals.

### 4. Update from Xoserve

- 4.1. Martin Baker (MB) gave an [update](#) on the Xoserve Change Programme including the gas settlement reform project. He noted that the gas settlement reform project is not in the scope of the Smarter Markets Programme because policy development under

Project Nexus was already well progressed at the time when the Smarter Markets Programme was established. He also informed that UNC modifications UNC432 and UNC434, which will reform gas settlement, had been approved by Ofgem on 21 February and systems development is now underway, targeted to be in place in Q4 2015.

- 4.2. MB spoke to the wider context of the two year timeframe (2014-2015) of the Xoserve Change Programme and its key components. He noted that, in addition to gas settlement reform products, Xoserve will be delivering a solution for iGT Single Service Provision for Supply Point Administration services. He also highlighted that industry engagement is vital throughout the process of building the new SAP based UK Link system to ensure that any necessary business process change is agreed with the industry.
- 4.3. MB also informed the attendees that industry reforms arising from EU Network Codes and consequent UNC modifications are expected to introduce changes to capacity and balancing arrangements, as well as gas day timing and information reporting under REMIT, all for delivery during 2015.
- 4.4. MB advised that the 'faster switching' Modification (UNC477) had been approved by Ofgem and that changes to the existing UK LINK system were on track for November 2014 implementation. In response to a question from AT about the level of confidence for a November 2014 delivery, MB advised that project work was on track, and that Xoserve has a well-established track record of success in delivering changes to existing UK LINK systems. MB added that industry discussion around UNC477 had agreed to limit optionality and variation, giving a set of business rules for delivery which were more 'straightforward' than otherwise might have been the case, and this was helping to build confidence in the likelihood of an on-time successful implementation.
- 4.5. On the question of readiness for smart meter rollout, MB confirmed that the Xoserve timetable for developing and testing its interface to the DCC is set for Q4 2014, although Xoserve will be involved in subsequent integration testing with the industry during 2015.
- 4.6. MB spoke to the UK link Programme timeline noting that the high level design is now completed though overlapping with the detailed design work. MB stressed that the detailed design work is a critical phase of the project which will help determine the extent to which SAP standard data and processes can be used, or where a degree of customisation may be required. Xoserve is assuming that only a low level of customisation will be required, and MB noted that greater customisation is likely to place greater pressure on the autumn 2015 timeframe. MB also noted that the market trials scheduled for summer 2015 are vital for the project and Xoserve is considering early feedback from the industry about the duration and timing of the period for market trials.
- 4.7. MB encouraged attendees to be fully engaged with the UK Link Programme and be "business ready", and outlined the range of opportunities that are available for engagement.

## 5. Electricity settlement

- 5.1. Jonathan Amos (JA) introduced the [slide pack](#) circulated to members in advance of the meeting. JA reminded attendees that the April 2014 launch statement set out that Ofgem considers it is in consumers' interests to be settled against their half-hourly (HH) consumption data. He informed members that we would be seeking their views on two aspects of the next phase of the project: the evaluation criteria for assessing reform options and the role and composition of the expert group.

*Discussion on launch statement and proposed analytical framework of the project*

- 5.2. David Jones (DJ) asked whether moving to actual HH data will have any knock-on effects on meter reading performance and data standards for settlement. JA confirmed that as part of the settlement project Ofgem intends to consider how these standards should operate in a market where consumers are settled against their HH data.
- 5.3. Ashleye Gunn (AG) argued that benefits arising from using actual HH data in settlement were possible rather than definite. She called for the language Ofgem uses to be softened. JA clarified that our settlement project is still in the early stages and the intention is to undertake a more detailed assessment of costs and benefits of the shortlisted options next year.
- 5.4. Attendees raised a number of points on moving consumers to using their actual half-hourly data in settlement, including consumers consent. Paul Delamare (PD) asked if consumers will need to consent to their actual HH data being used in settlement. JA informed that reform will have implications on the data access and privacy framework and that we will take this into account when developing options, for instance by looking at the possibility of anonymising data. EP raised a point related to consumers who do not get smart meters or whose smart meters cannot be accessed remotely. He informed that having two different settlement processes operating at the same time would be costly. Sharon Johnson (SJ) asked whether consumers could opt out from having their actual HH data used in settlement. DJ informed that the BSC does not include any reference to consumers choosing how they are settled but that suppliers can choose to settle any consumer via the existing HH arrangements providing they have the appropriate metering equipment. Chris Harris (CH) argued that it will not be possible for consumers to opt- out as the use of actual HH data in settlement is deemed a regulated duty and the data could go directly from the meter into settlement without suppliers having sight of it.
- 5.5. Rob Church (RC) drew links between the settlement work and the ongoing work on the roadmap noting the importance of bringing value for consumers across the supply chain.
- 5.6. AG also noted the importance of considering how consumers would engage with time-of-use (ToU) tariffs. She argued that consumers may find it challenging to use new technologies and understand more complex tariffs and consumption information. AG called for analysis on this to be conducted alongside the settlement project. AG added that Which? agree that DSR could deliver benefits but information presented to consumers needs to be clear and simple.
- 5.7. AT agreed that settlement reform would result in consumer benefits but stressed that a quantitative assessment should seek to measure this. Maxine Frerk (MF) said that the value of DSR would increase in the future with greater use of intermittent sources of electricity generation. As such, it is right for Ofgem to help create the right environment for DSR while protecting consumers. AT agreed and noted the importance of considering the ongoing work by Work Stream 6 of the Smart Grids Forum. CH added the importance of anchoring our analysis in the future, recognising the importance and value of DSR would be more significant over time. GM highlighted that Ofgem is coordinating interactions with other relevant work.
- 5.8. Sharon Johnson (SJ) queried when we expect DSR to become more widespread, arguing that this will have an important bearing on the timing of the transition to using HH data in settlement. Responding to this point, RC argued that settlement reform is necessary to set the right incentives for wider uptake of DSR.

- 5.9. Katherine Marshall (KM) asked to what extent Ofgem intends to consider the DECC smart metering impact assessment and whether it will be used as a benchmark for our quantitative assessment. JA confirmed that Ofgem is mindful of DECC's analysis and that we are conscious of the need to avoid double counting benefits. Teresa Camey (TC) said she agreed with the intended approach and it is important to recognise the upside of settlement reform. RC noted that this is early stage work which will be supported by the expert group.
- 5.10. PD asked whether the evaluation criteria would assess the risks with different transition options, for instance suppliers picking certain types of consumers before others to settle through new arrangements. He also asked for the assessment to include distributional analysis and suggested that the evaluation criteria include cover the risks associated with reform options.
- 5.11. AT said he followed the logic of the evaluation criteria we had selected. He raised the importance of being clear on when and how cost savings will flow through to consumers as a result of reform. He also added that the "integration" criterion should clarify whether it involves integration with EU markets. Expanding on this point, RC said it would be important for us to understand interdependencies between settlement reform and other parts of the regulatory framework.
- 5.12. KM raised the importance of aligning the vision and the potential impacts on consumers. She suggested that the evaluation criteria include links to DSR and a detailed assessment of costs and benefits to help make the case that settlement reform is good for consumers.

*Discussion on the Expert group; rationale and objectives*

- 5.13. JA spoke to the stakeholder engagement plans for the settlement project. To inform our analysis, he explained that Ofgem plans to set up an expert group consisting of parties with an interest in settlement reform, including larger and smaller suppliers, network operators, consumer groups and agents responsible for preparing data for settlement. The approach will be based on that used successfully by the change of supplier expert group (COSEG).
- 5.14. On the rationale for the expert group, JA informed that it will allow Ofgem to harness industry's technical knowledge of settlement and understand the impact that change could have on consumers. It will help us to develop the options for using actual HH data in settlement and to undertake the comparative assessment of these options.
- 5.15. On the purpose of the expert group, JA informed that it will review evaluation criteria, comment on and assess options, identify interactions between options and other relevant parts of market and comment on our plans for a second stage of work in 2015.
- 5.16. JA gave an update on the level of interest we received to participate in the expert group. JA informed that we have received very positive responses with over 30 applications.
- 5.17. In terms of the proposed plan of work of the expert group, JA informed that we intend for it to meet six times from June to October, with the first meeting on 16 June. JA invited members' views on the proposed work plan.
- 5.18. AT suggested that, given the strong interest in settlement reform, Ofgem communicates more broadly at key stages of the expert group's work. JA confirmed that the intention is to maintain a transparent approach, with expert group papers

published on the website after each meeting. He also indicated that later in the year we plan to publish a document summarising the group's work.

5.19. Chris Harris (CH) suggested that the group should strike a balance between technical and non-technical members as it will need to link settlement reform back to consumers. GM confirmed that it was the team's intention that the groups would represent a wide range of stakeholders including consumers.

5.20. AT queried whether the commercial interests of individual technology companies, particularly in providing any future settlement solution, should mean that they are represented by a trade body rather than an individual company.

## 6. Change of Supplier

6.1. Nigel Nash (NN) spoke to the [slides](#) circulated in advance of the meeting which gave an update on the roadmap for reform of the switching process and Ofgem's key arguments for both centralising registration services and introducing fast (next day) switching.

6.2. NN explained that the roadmap for the reform is threefold:

- Secure a reliable three week switch now
- Speed up switching in the short term
- Longer term reform

6.3. NN explained that the first stage of the roadmap to secure reliable three week switching includes new licence obligations for suppliers that we aim to have in place from August 2014. These would require suppliers to switch consumers within three weeks and to take steps to prevent erroneous transfers. NN added that, in response to a request from Ofgem, industry is developing proposals to improve the Change of supplier meter read process for smart meter customers. Ofgem would shortly be asking the code bodies what steps can be taken to address data quality issues. Ofgem is also considering what additional monitoring information may be needed, for example on objection performance assurance. NN also noted that Energy UK is planning to review its billing code of practice to ensure it covers switching.

6.4. NN then spoke to stage two of the road map and highlighted that suppliers have developed proposals that would halve switching timescales to 17 days by the end of 2014. NN reiterated MB's earlier point on implementation which is now underway with code modification due to be introduced in November. NN added that Ofgem welcomes agreement from Energy UK to review cooling-off arrangements. This assessment would look at whether the current arrangements are fit for purpose for now and how the two week cooling-off period can be managed in the 17 day switching period. Energy UK is also considering changes needed for switching within the cooling off period to support our longer term reforms. Energy UK will present its findings to a future COSEG.

6.5. On the third stage of the road map, NN informed that Ofgem will shortly publish a consultation document that will propose longer term reforms. This will include proposals for a new centralised registration service and options for next-day, two-day and five-day transfers. If these proposals were to be taken forward, Ofgem are considering a Significant Code Review as a mechanism for coordinating the wide-ranging changes that would be needed to industry codes and licence conditions.

*Discussion on the case for centralised registration*

- 6.6. NN set out the case for centralised registration noting that the core design of both the gas and electricity registration systems and switching services dates back to the opening of competition in the mid 1990s. NN added that the basic requirements for gas and electricity registration systems are similar but they have been developed separately. NN also pointed to our consumer research findings which revealed consumers identified reliability as top priority, however, over 80% of gas switches have taken longer than five weeks, there are uncomfortably high numbers of erroneous transfers and in some cases the switch is abandoned.
- 6.7. NN spoke to the ongoing annual costs of both current and new services. He noted that the current costs are £2.11 per dual fuel customer per year and the ongoing costs for new service for next-day are £2.37 per dual fuel customer per year (excluding initial investment costs to put in place the new arrangements). He noted that much of the cost on the next day switching proposal was driven by the objection arrangements. Ofgem would be consulting on bringing forward its review of objections.
- 6.8. AG queried whether the calculations considered gas and electricity. RC confirmed that it is based on average dual fuel domestic customer.
- 6.9. SJ noted that suppliers currently incur costs for central systems through network charges and queried whether the suggest move to centralised registration will mean that suppliers will pay costs for the new system and if there would be a consequential reduction in Network Charges. It was agreed that these questions would arise as discussions progressed.
- 6.10. TC asked how the CoS reform will address the rules around holding information on consumption data. NN said that at this stage Ofgem envisaged that central systems would need to hold the data necessary to support the switching process. For legacy metering in electricity this may mean that the data held by Data Collectors for validating meter reading may need to be held centrally. However, this was subject to the detailed design work.
- 6.11. NN then summarised the key reform areas which include; centralised registration service, objections, gas confirmation window, metering and supporting fast switching during the cooling off period.

*Additional discussion on overall costs of switching reform*

- 6.12. NN explained that Ofgem had sought quantitative evidence from stakeholders to attach a monetary value to the CoS potential benefits and costs. To do that Ofgem issued a Request for Information (RFI).
- 6.13. NN presented a snapshot of the cost benefit analysis that Ofgem undertook using the RFI data. He concluded that the costs of rebuilding IT systems is likely to be a lower cost option than adapting the existing and aging systems. RC commented that overall costs of new systems looked less than adapting existing systems and detailed analysis will accompany the main consultation document as a supporting document.
- 6.14. CH asked if the calculation suggests that two-day switch is the optimum solution. RC clarified that the intention is to seek stakeholders' views though the consultation.
- 6.15. RC also added that GEMA identified objections as an important area and that Ofgem was considering consulting separately on objection reform.

6.16. AT suggested that consultation tackles domestic and non-domestic reforms separately.

## 7. Wrap up and date of next meeting

7.1. RC thanked all the attendees for their contributions.

### Attendees

Sharon Johnson	British Gas
Paul Delamare	EDF
Alex Travell	E.ON
Chris Harris	Npower
Richard Sweet	Scottish Power
Katherine Marshall	SSE
Louise Murphy	SSE
Steve Rowe	Co-op
Peter Olsen	Corona Energy
Chris Welby	Good Energy
Paul Bircham	Energy Networks Association
Ashleye Gunn	Which
Paul French	DCC
David Jones	Elexon
Paul French	DCC
Tony Thornton	MRASCo
Martin Baker	Xoserve
Lawrence Slade	Energy UK
Eddie Proffitt	Major Energy Users Council
Jill Ashby	SECAS
Andrew Poole	Federation of Small Businesses
Sara Bell	UKDRA
Teresa Comey	DECC

**Ofgem:** Maxine Frerk (Chair), Rob Church, Grant McEachran, Rowaa Mahmoud , Francis Jackson , Chiara Redaelli, Johnny Amos and Jeremy Adams-Strump (for item 4), Nigel Nash (for item 5).

**Apologies:** Audrey Gallacher, Consumer Focus

Ed Reed, Cornwall Consulting

John Wiggins, Opower