



Department
of Energy &
Climate Change

ofgem

Making a positive difference
for energy consumers

Independent Energy Supplier Forum

2 October 2014

Agenda

13:00 Introductions

13:05 Challenger Business Action Plan

- (a) Online resources for independent suppliers
- (b) Departmental independent supplier toolkit
- (c) Communications and future forums

14:00 DECC Quick Policy Updates

14:10 Ofgem Quick Policy Updates

14:20 Refreshment Break

14:35 Policy Spotlight: (a) Market Investigation Reference (MIR)
(b) Smart Meters Programme

15:45 Q&A and Close

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Challenger Business Action Plan



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Government and Ofgem Action Plan: Challenger Businesses (Independent Energy Suppliers)

August 2014

Foreword



The growth of independent energy suppliers in the domestic retail market is one of the most significant recent market developments, driving innovation, creating more choice for consumers and providing a strong competitive challenge to the larger established players in the industry.

In 2010 there were 7 independent energy companies in the domestic market. All had fewer than 50,000 customers. Now we have 19 independent energy suppliers, providing consumers with more choice than ever. Collectively they have grown their market share more than six-fold since 2010, and half of all customers who are switching to a new electricity supplier are switching to an independent supplier.

The Government's and Ofgem's policies have already reshaped the market, boosting competition. Yet we are going further, ensuring that in Great Britain we have a diverse, fair and competitive energy market. One where all suppliers - from large established companies to small new entrants - compete on a level playing field to create better offers for consumers.

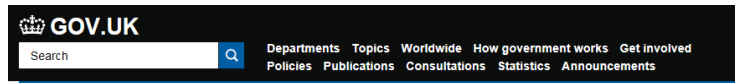
For new entrants into an existing market, there can of course be challenges when breaking through and establishing a sustainable business. Since 2010, DECC has been working closely with Ofgem to reduce barriers to entry and growth.

We have made good progress in many areas. Earlier this year Ofgem introduced new licence conditions to improve liquidity in the wholesale electricity market and transparency in the retail market. And back in 2011 the Government increased the customer number threshold at which suppliers are required to comply with certain environmental schemes - from 50,000 customers to 250,000.

Challenger Business Action Plan

Online Resources

Webpage for independent energy suppliers




Members-only LinkedIn discussion forum

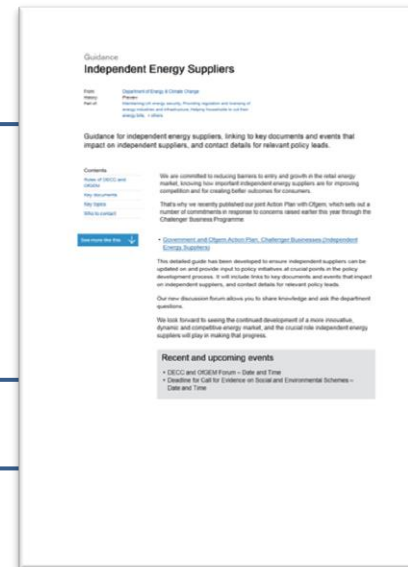


Regular e-newsletters



 Department of Energy & Climate Change
Independent Energy Supplier Newsletter
December 2014

Welcome to our new **Independent Energy Supplier Newsletter**. We will be circulating these regularly and hope you find them interesting and informative. We welcome your feedback.



Challenger Business Action Plan

Impact Assessment Toolkit

Independent Energy Suppliers:
A Better Way to Engage and Assess Impact

The Department of Energy and Climate Change and Ofgem are committed to delivering a fair, diverse and competitive retail energy market. The retail energy market has changed dramatically over the last couple of years, especially in the domestic sector. It's more competitive than it's ever been. In order to maintain this momentum it's crucial that policy makers engage effectively, and the impact of any new policies on independent suppliers is properly assessed. We do not want to inadvertently create barriers to entry and growth.

To better enable policy makers to engage and assess the impact of proposed policies on independent suppliers, DECC and Ofgem are developing their internal **Independent Energy Supplier Impact Assessment Toolkit**. The toolkit will include the type of information we typically require for our impact assessments, consultations, and other important publications. The toolkit will:

- Provide up to date contact details for each supplier, to ensure we can engage and provide support effectively.
- Enable us to tailor our communications with different suppliers according to needs.
- Allow those developing policy to have a deeper understanding of each business in the market, the areas of potential impact, and how to design policies that take account of the diverse nature of the retail energy market.
- Provide checklists of issues that policy makers will need to consider.

We'd be grateful if you could please complete the attached template to provide us with more information about your business a better way to engage and assess impact.

Please complete the attached template by xx and return to:
Dawn Armstrong – DECC Independent Energy Supplier Lead
dawn.armstrong@decc.gov.uk

As part of our continued commitment to engage and appraise regulatory impact, we will request this information twice a year.

Please note that DECC and Ofgem will only use this information internally, to better understand the nature of your business and inform you of any information relevant to the functioning of your business. We will not publish any of the information you provide, that is not already publicly available, without your express approval.

Independent Energy Suppliers: Impact Assessment Data		
Company Name:	Click here to enter text.	
Address:	Click here to enter text.	
Main Contacts If you wish to provide further additional contacts, please append them to this form.		
	Contract 1	Contract 2
Name:	Click here to enter text.	Click here to enter text.
Role:	Click here to enter text.	Click here to enter text.
Email:	Click here to enter text.	Click here to enter text.
Telephone:	Click here to enter text.	Click here to enter text.
Customer Numbers (Approximate)		
	Domestic	Non-Domestic
Electricity:	Click here to enter text.	Click here to enter text.
Gas:	Click here to enter text.	Click here to enter text.
Business Information (Approximate)		
National/Regional/Local:	Click here to enter text.	
Number of Staff:	Click here to enter text.	
Annual Turnover:	Click here to enter text.	
Other Relevant Information (e.g. delivery focus, target market)		
Click here to enter text.		
Sign:	Date:	Click here to enter text.

Independent Retail Energy Suppliers:
Impact Assessment Toolkit

This document is a toolkit to assist policy teams across DECC undertake the independent energy supplier element of their Small and Micro Business Assessment (SMBAs). This toolkit provides:

PART 1

- a) An overview of what is required from an Impact Assessment (IA) and SMBAs
- b) An overview of the independent domestic and non-domestic energy market
- c) Specific guidance on what you need to consider
- d) Information and advice on wider engagement with independent energy suppliers

PART 2

Detailed market information on each independent domestic and non-domestic energy supplier can also be provided upon request. Due to the commercially sensitive nature of the information, it is not published within this toolkit but provided as required.

Please contact the Retail Markets Team in the Markets and Infrastructure (MI) Group to discuss policies that will impact upon independent energy suppliers. The team can advise and support you further in carrying out your SMBAs.

Dawn Armstrong
Independent Energy Supplier Lead
dawn.armstrong@decc.gov.uk

Rachel Crisp
Head of Energy Markets and Consumers, Independent Energy Supplier Champion
rachel.crisp@decc.gov.uk

PART 1

(a) Impact Assessments (IAs) and Small and Micro Business Assessments (SMBAs)

Impact Assessments (IAs)

Impact Assessments (IAs) are required for all UK Government interventions of a regulatory nature that affect the private sector. They are required for domestic and international regulation, for primary and secondary legislation, and for codes of practice and guidance.

IAs in DECC must be cleared:

- Internally by the Chief Economist (subsequently signed by the responsible Minister)
- Externally by the Regulatory Policy Committee (RPC)

The RPC provide a "fit for purpose" rating, and IAs deemed not fit must be resubmitted.

Small and Micro Business Assessments (SMBAs)

Government policy states that all regulatory IAs must contain an SMBAs, which sets out the impact of the regulation on small businesses (up to 49 FTE employees) and micro-businesses (up to 10 employees). In DECC the requirement to undertake an SMBAs is extended to include all independent retail energy suppliers (irrespective of employee numbers), due to the market contact and overlap between the large suppliers (the Big Six) and the rest of the sector.

(b) Independent Energy Suppliers

It is important that when considering policies which impact on energy suppliers, policy makers have a complete picture of the market and engage with different types of suppliers. Ministers are keen to remove barriers to entry and growth so independent suppliers can enter the market and grow to challenge the established players. It is important that we do not inadvertently create new barriers to entry and growth through new policies.

The retail energy market, particularly the domestic market, has changed dramatically over the last two years. In the domestic market there are now 19 independent suppliers (excluding white label companies, who operate under an existing supplier's licence), with customer numbers ranging from a few thousand to up to around 5 million. In terms of market share the domestic market is still dominated by the Big Six, but this is changing. In 2010 independent suppliers had less than 1% share of the market, today they have approximately 10%. Domestic consumers are increasingly turning to independent suppliers, with over half of all consumers saving money going to an independent supplier.

The non-domestic market is the most competitive it has ever been, with nearly 30 companies supplying electricity and gas to business customers. Several of these companies have been in the market for over 20 years, and a number are vertically integrated with generation assets. Their market share is also significant. At least 20% of gas and almost 20% of electricity used by business is from companies other than the Big Six. Although some companies supply both gas and electricity, dual fuel contracts are not a defining characteristic of the business markets. Many of the companies also supply energy on a targeted basis, for instance just to public sector customers or SMEs.



Challenger Business Action Plan

Other Communications and Format of Future Forums

Bilateral and multi-lateral meetings:

- DECC and Ofgem available for bilateral meetings – please contact us.
- Meetings to be set up on issues specific to particular groups of independent suppliers. DECC and Ofgem to coordinate/join up their meetings to avoid duplication

DECC and Ofgem visits:

- DECC and Ofgem officials available for onsite day visits – please contact us.

Consultations:

- Using different media for consultation responses e.g. tele/ videoconference

Making our Documents User Friendly:

- Piloting a new document template to show who is impacted and how:

Who is affected?

Stakeholders	How
Independent energy suppliers	This action plan aims to reduce barriers to entry and growth for independent energy suppliers.
Energy consumers	Improved competition and innovation in the energy market will create better offers and service for all consumers.

Challenger Business Action Plan

Other Communications and Format of Future Forums

Previous Events:

- a) DECC/ Ofgem Challenger Business event in May
- b) Ofgem Independent Suppliers Event in June (run by Compliance team at Ofgem)

Taking your feedback from these sessions to join up our activity.

Future Forums:

Joint DECC/ Ofgem Forums:

Q – How frequently?

Q – Does today's format work? Quick policy updates & policy spotlight.

Q – What do you want to see covered?

Q – Is filming the session helpful?

Q – Any other comments?

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DECC Quick Policy Updates

- Faster switching
- Midata
- QR codes
- Credit and Collateral
- Call for evidence on small supplier exemptions
- Warm Homes Discount
- Strategy and Policy Statement
- DECC's autumn/winter communications activity
- Big Energy Saving Network
- Government electricity rebate

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Ofgem Quick Policy Updates

- EBSCR
- Non-domestic suppliers
- White label companies
- Treatment of low and zero consumers of gas

EBSCR

Dominic.Scott@ofgem.gov.uk

- Ofgem's Electricity Balancing Significant Code Review (EBSCR) reforms address imperfections in cash-out arrangements to support
 - balancing efficiency, security of supply, competition and innovation
- EBSCR now under consideration in two BSC 'mods' – P304 and P305
- P304 brings in a modestly more marginal cash-out price (PAR250)
 - scheduled for decision by Authority in October, implemented W14/15
- P305 brings in the bulk of the EBSCR reforms
 - scheduled for decision by Authority early 2015, implemented W14/16

Ofgem Quick Policy Updates (2)

Non-doms

Meghna.Tewari@ofgem.gov.uk

- Developing governance arrangements for proposed Third Party Intermediaries (TPI) code of practice for non-domestic TPIs
- New rules on automatic contract renewals proposed for spring 2015
- Engagement with suppliers on new enforceable Standards of Conduct
- Enhancing compliance monitoring; sought information from suppliers to assess compliance with some RMR rules. To be reported on publically at start 2015.

Ofgem Quick Policy Updates (3)

White Labels

Ruben.Pastor-Vicedo@ofgem.gov.uk

- Consulting on rules that facilitate the development of white labels and provide consumers with the relevant information to assess whether a white label tariff is in their interest.
- Consultation closes 6 Nov. Subject to the outcome of the consultation, expect permanent arrangements in place first half 2015
- We would consider derogations, akin to the temporary arrangements, for any supplier with new white labels or existing ones not covered by them.

Treatment of low and zero consumers of gas

Sweta.Deb@ofgem.gov.uk

- We are determined to stop the practices we think are unfair
- We made clear:
 - That customers who have never consumed gas should not be charged a standing charge
 - Customers who are in vulnerable situations should not have to pay for the removal of their meter, should this be appropriate
 - We want to understand how suppliers are applying these principles in practice

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Independent Suppliers Forum
Presentation on Market Investigation Reference

Anjali Mehta
2/10/2014

ofgem

Our State of the Market Findings

1

Weak Customer Response

- Evidence that customer activity in the market is low, and trust is low, which is preventing the process of competition from working effectively.

2

Incumbency Advantages

- Suppliers that gained large customer base when competition was introduced continue to charge higher prices to less active customers. Suggests competition is not working effectively for all customers.

3

Possible Tacit Coordination

- We found no evidence of direct coordination, but there is evidence of possible tacit coordination, which can weaken competitive rivalry between companies.

4

Vertical Integration

- Vertical integration is prevalent in this market. A full investigation of the balance between the costs and benefits of VI is needed to determine what is best for this market.

5

Barriers to Entry and Expansion

- Barriers identified in SOM report included credit and collateral requirements, low wholesale market liquidity, extensive industry regulation, and policy uncertainty.

Ofgem's findings are broadly aligned with the CMA's four Theories of Harm

CMA Statement of Issues – Theories of Harm (TOH)

- **TOH 1:** “Opaque prices and/or low levels of liquidity in wholesale electricity markets create barriers to entry, perverse incentives and other inefficiencies”
- **TOH 2:** “Vertically-integrated firms harm non-integrated firms, by increasing costs or reducing sales of non-integrated energy firms.”
- **TOH 3:** “Market power in electricity generation leads to higher prices.”
- **TOH 4:** “Energy suppliers face weak incentives to compete in retail markets, due in particular to inactive consumers, supplier behaviour and/or regulatory interventions.”

Dates	Action
26 June 2014	Reference made by Ofgem
July to September 2014	Initial information requests Publication of initial issues statement Initial submissions from main and third parties
September 2014	Site visits, issue questionnaires
October 2014	Hearings with third parties
January/February 2015	Publication of relevant working papers and annotated issues statement
February/March 2015	Main party hearings
March 2015	Deadline for all parties' responses/submissions required before provisional findings
May to June 2015	Notify provisional findings and possible remedies (if required)
November to December 2015	Publish final report
25 December 2015	Statutory deadline

Number of opportunities to present views

Ofgem's role and ideal outcomes

Ofgem's Role

Provide expert
advice

Statutory duty to
support
investigation

What we would like to see resulting from investigation

A dynamic,
competitive market
with active, satisfied
consumers

A regulatory
framework that
protects interests of
consumers and
removes barriers to
competition

Definitive answers
to questions (eg VI)

Minimise disruption
to investment

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Policy Spotlight: Smart Meters

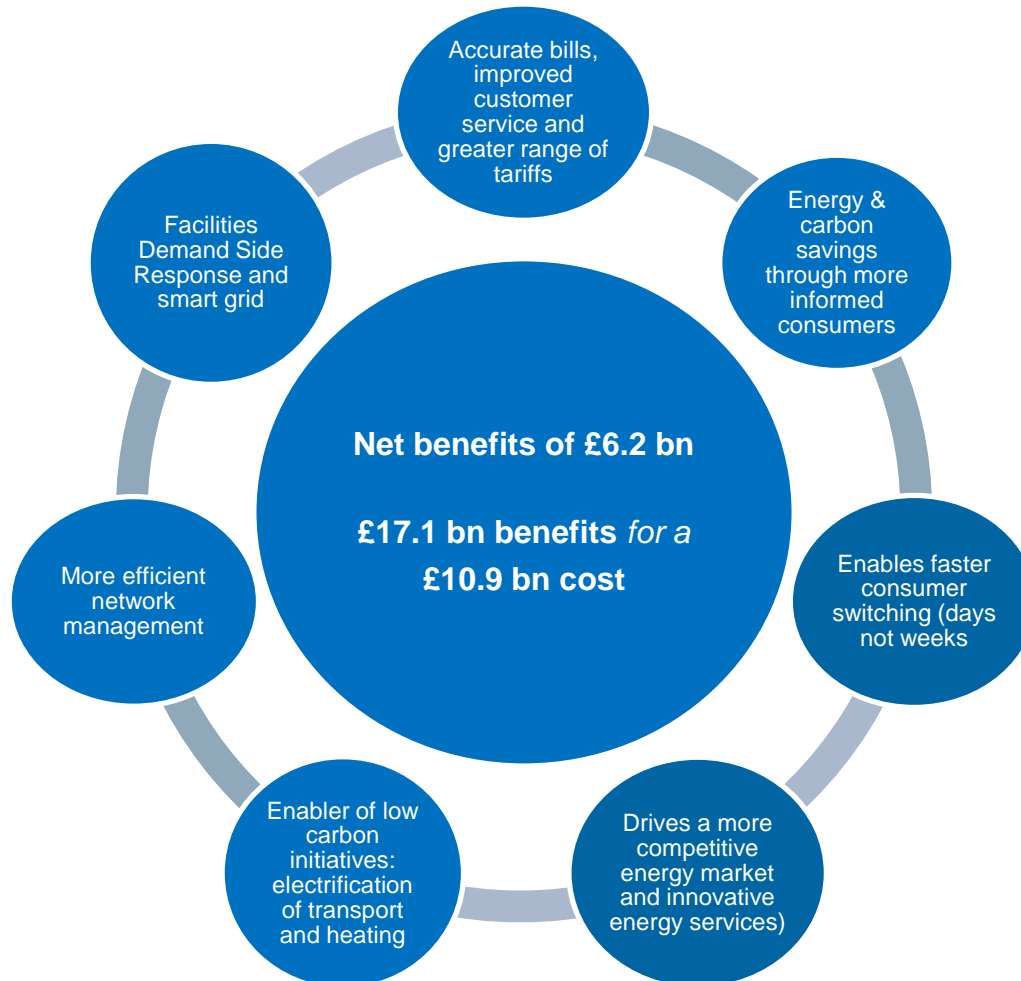
Programme Overview

- **53 million** electricity and gas smart meters to be installed
- Supplier led / mandated to be completed by **end 2020**
- Large scale roll out from **late 2015** – larger suppliers required to be ready for system testing with central Data & Communications Company from June 2015
- Regulatory, commercial and technical platform largely complete - moving to test phase
- **£6 billion+** Net Present Value



Policy Spotlight: Smart Meters

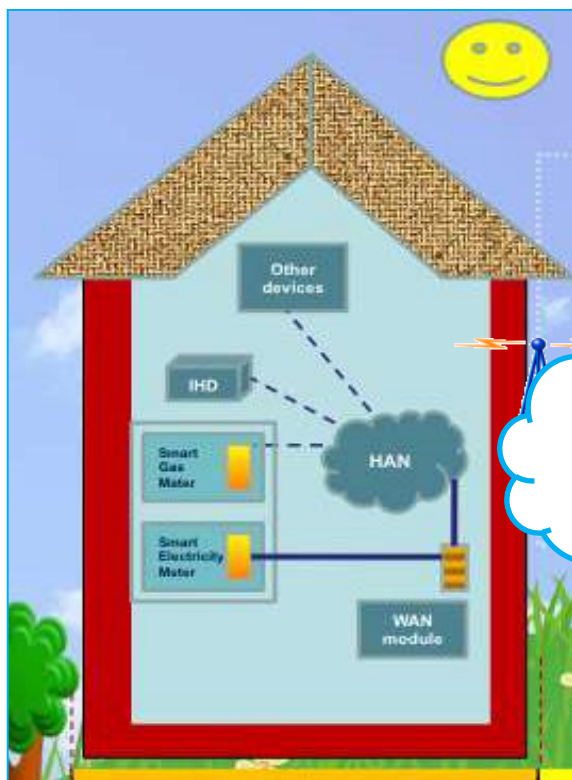
Supporting DECC's strategic objectives



Policy Spotlight: Smart Meters

Smart Metering System

Consumers



Data and Communications Company

 Data
Communications
Company

Data Services
Provider:
CGI IT UK

Communications
Service
Providers:
Arqiva Ltd
Telefónica

DCC Service Users

Energy suppliers

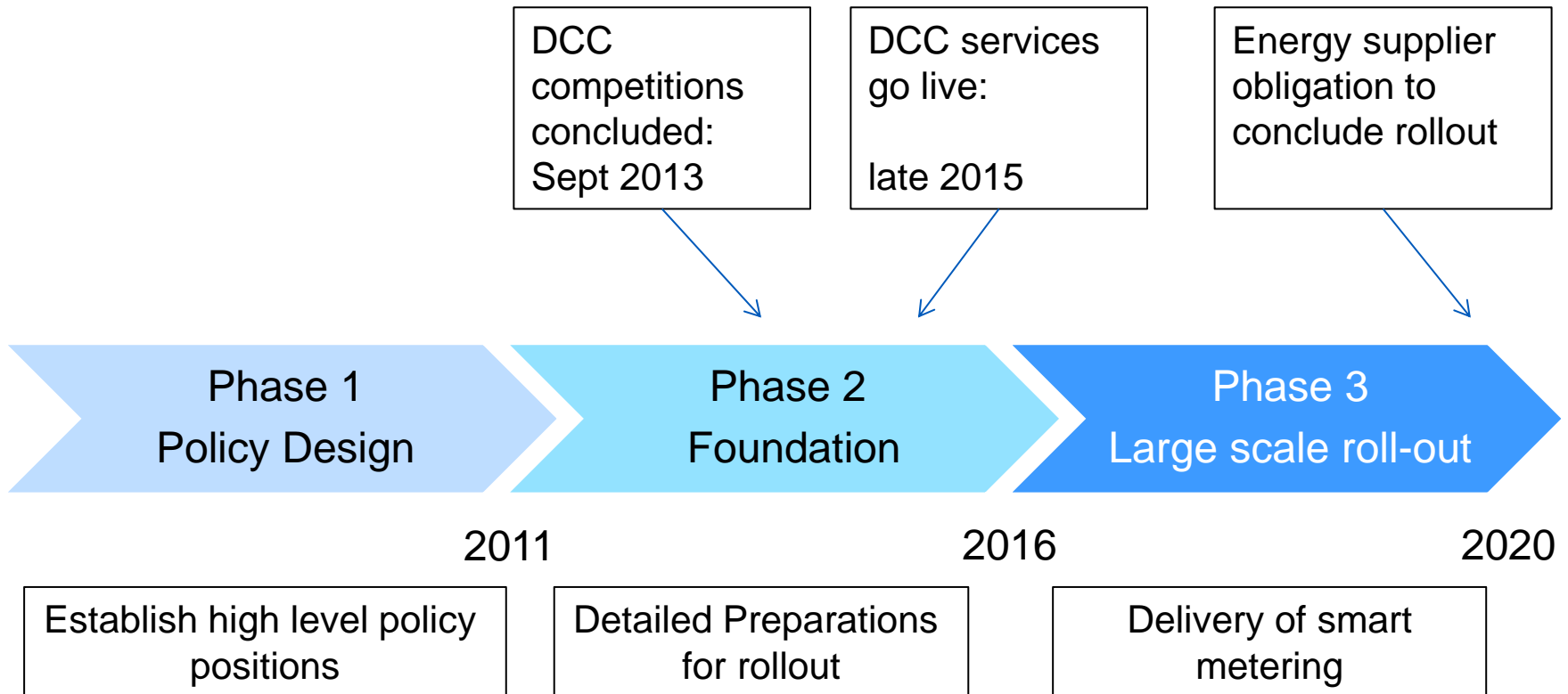
Electricity and gas
network operators

Other authorised
parties

Wide area network

Policy Spotlight: Smart Meters

DCC live services available from end 2015



Policy Spotlight: Smart Meters

Requirements on suppliers

- Roll-out
- Smart Energy Code
- DCC Users
 - User Entry Process Testing
 - Security
 - Privacy
 - Integration testing
- Smart Energy GB
- Smart Metering Installation Code of Practice
- Monitoring and reporting

SMIP engagement with small suppliers

- Monthly events (workshops/phone conferences). Next key dates are 21st October and 17th November for workshops
- ‘Back to basics’ for next few workshops, with invites to partner agencies
- Bilateral on-going meetings with ‘transitioning’ suppliers
- ‘One-off’ bilaterals with a range of other smaller suppliers
- Expect annual progress request in December.

Policy Spotlight: Smart Meters

Ofgem's role

Protect the interests of consumers

Monitor and regulate licence obligations

Approve/reject certain modifications to the Smart Energy Code

Provide independent regulatory advice and expertise to DECC

DECC's role

Develop roll-out policy and associated regulatory framework

Monitor delivery of benefits of smart meters

Report on progress to Parliament, public and other interested parties

Data access and privacy – licence obligations

Current rules

- Applies to homes and micro businesses with smart meters
- Licence sets out when suppliers can take consumption data and when consent would be needed
- Consumer must be informed about what data is being taken and why

Recent developments

- We consulted on extending the smart meter rules to all “remote access meters” in homes and micro businesses
- Statutory consultation on final policy proposals (including licence drafting) closed on 26 Sep

Rollout plans and annual milestones

We propose that small suppliers will:

- Provide a rollout plan for how they will meet their rollout obligations
- The plans would include annual milestones for up to the end of 2019.
- The milestones would not be binding or enforceable
- The overall rollout target (for end 2020) will remain enforceable

If a small supplier becomes a large supplier, we would direct them to provide a rollout plan with binding and enforceable milestones.

This approach will be kept under review.

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