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Ofgem Forum for Third Party Intermediaries

27 September 2019

OFG1161

Welcome & Housekeeping

Agenda

- **1.30pm:** Opening remarks from Neil Barnes, Deputy Director Consumer & Markets
- **Session 1:** Presentations on Future Retail Market Design, Microbusiness Strategic Review, and Consumer Vulnerability Strategy
- **Break**
- **Session 2:** Presentations on the Settlement Reform project, harmonising data access arrangements, and the Switching Programme
- **4.20pm:** Closing remarks and your feedback

Future Retail Market Design and Microbusiness Strategic Review

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Purpose of today's session

- Provide an update on the status of the Future Energy Retail Market Review (FERMR) and the Microbusiness Strategic Review (MBSR)
- Recognise the changing role of third party intermediaries
- Provide a snapshot of FERMR consultation responses and how this helps inform the evidence base
- Update on assessment criteria and options development of FERMR
- Give an overview of the MBSR and next steps

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Work programmes on the MBSR and Future Retail Market Design are clearly distinct but overlap in scope

Future Energy Retail Market Review

Designing a future market that balances the needs for innovation, safeguard arrangements and protection

Timeline: Consultation in summer
Majority of reforms introduced after 2023

Planned method of delivery:
Proposal to be developed for regulatory and policy changes, including possible changes in legislation

Microbusiness Strategic Review

Building a better understanding of issues faced by microbusinesses, to identify short and medium term measures to improve outcomes

Timeline: Develop specific policy proposals to implement by early 2021

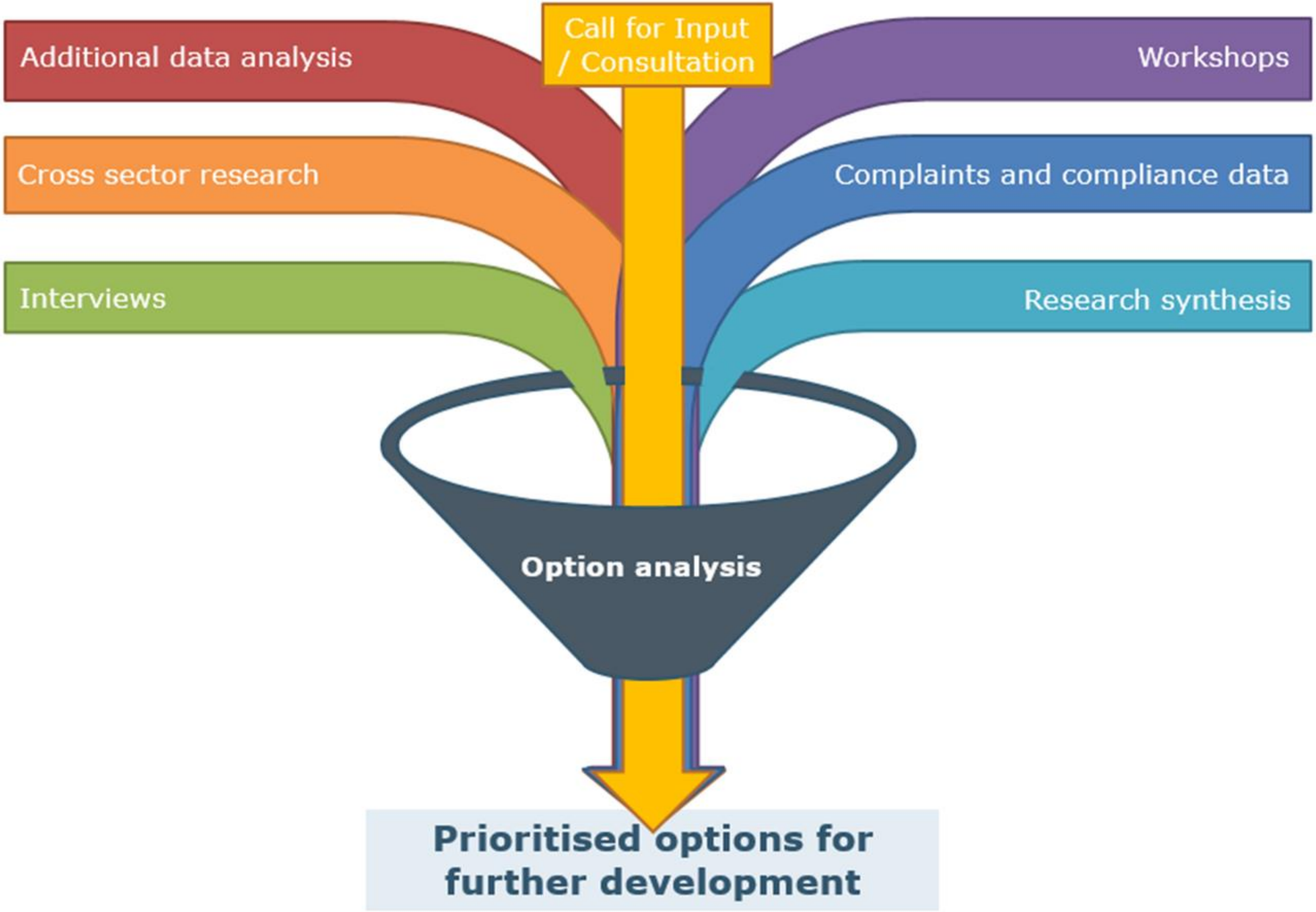
Planned method of delivery:
Proposals to be developed for regulatory changes, longer-term options identified to feed into FERMR

Third party intermediaries – their role going forward means changes are needed to consumer protection.

Evidence base of MBSR will feed into FERMR to help inform further option development.

Any measures taken forward by MBSR will complement any broader FERMR reforms.

Both projects are using a range of sources to inform policy development in a co-ordinated way



Future Energy Retail Market Review

Consultation (July) presented several long-term options for changes to regulatory framework, focused on TPI regulation.

Consultation closed on 16th, currently analysing responses.

The joint BEIS and Ofgem team have been meeting with stakeholders to develop policy options – including an Innovator Roundtable in August.

Next steps

We will continue to engage over the coming weeks with stakeholders.

Potential to consult on detailed options in Winter 2019.

Recap: Why are we exploring options to regulate TPIs?

Third Party Intermediaries play an important role in the domestic and non-domestic energy market facilitated by a number of Ofgem's own policies

68% of domestic consumers who engaged with the market found out about deals using a PCW

1000+ TPIs active in the non-domestic energy market

66% of those domestic consumers who switched did so through a PCW

Over 12 EV charging apps already available

All of EV chargers likely to have smart functionality

127k customers are subscribed to auto-switchers, which only started in 2016

There is a range of potential consumer harms from TPIs we might be concerned about.

Current harms could worsen and new ones could appear in future.

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What did the responses to our summer consultation tell us about TPI-related risks of consumer harm and options for longer-term regulation of intermediaries (post 2023)?

- Product comparison
- Vulnerable consumer identification
- Unregulated fuels
- Auto-switching
- Debt collection
- Peer to peer trading
- MBs/SMEs
- Comms channels
- Heat networks
- Medium/ large users
- DSR/ flexibility
- Local energy
- Prosumers
- Multi-party supply
- Bundled offers (with kit)
- Time of Use tariffs
- Supplier failure process
- Alternative dispute resolution
- Incorrect consumer perception

- Cross-sectoral regulation
- Supplier role in regulating TPIs
- Data sharing
- Industry processes

- Current complexity
- On-going reforms
- Sandbox pilots
- Licences v authorisation
- Future proofing

TPI-related risks of consumer harm

options for l/t regulation of TPIs (post 2023)

We are now reviewing responses with a view to narrowing down the options

Design considerations

How to ensure consumers are protected from future harms but with **market entry**, **monitoring** and **enforcement** that is proportionate?

Direction of travel

Assessing if now is the right time to introduce sectoral regulation or rely on **cross-sectoral initiatives**?

Timing

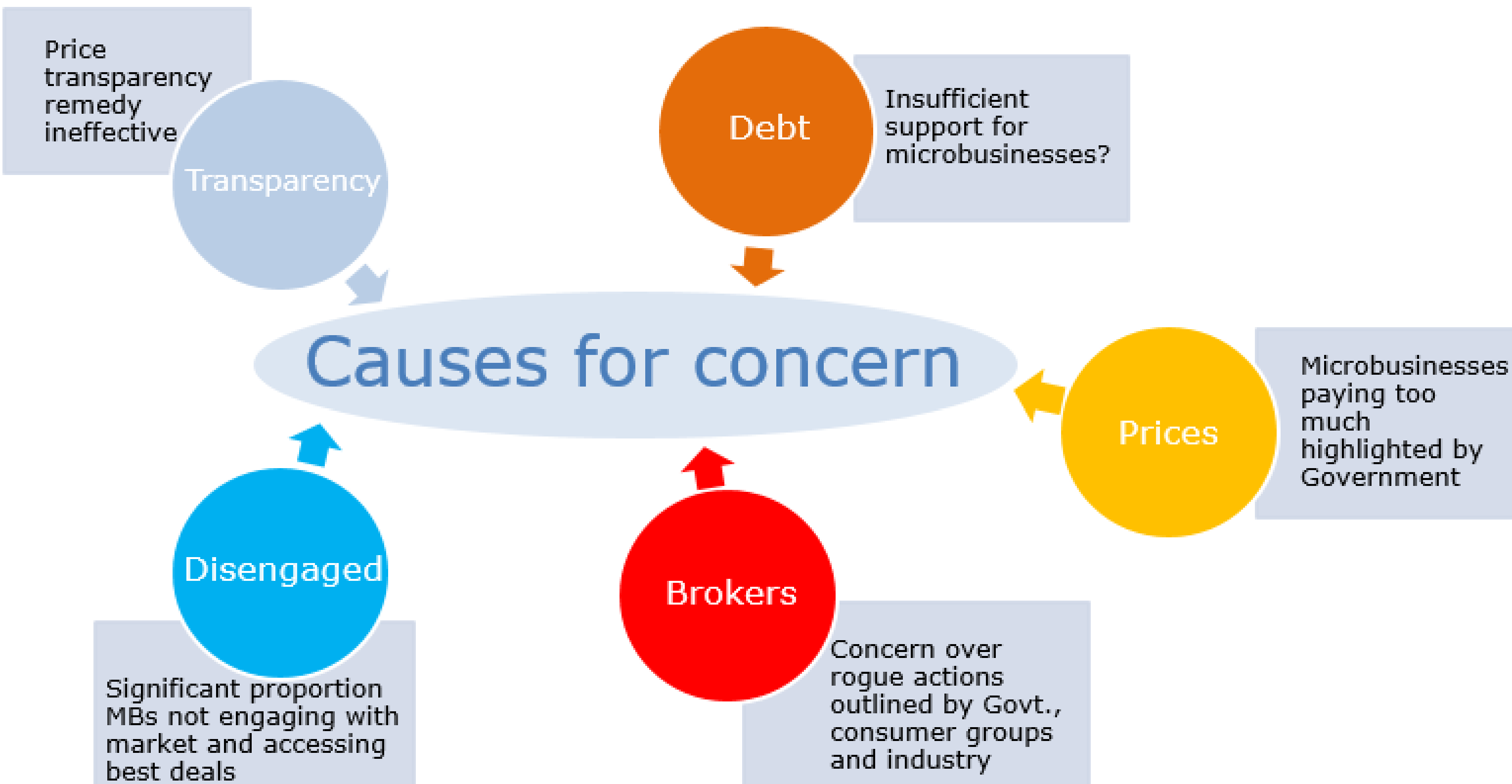
Avoiding locking in a regulatory approach too early and maintaining the **flexibility** to keep pace with change

- Enhanced consumer law powers
- Additional licences
- General authorisation
- Modular regulation

Microbusiness Strategic Review

Microbusinesses play a central role in the UK economy.

By 2018 there were over five million microbusinesses in the UK, accounting for a third of employment and 21% turnover. Microbusinesses make up a significant proportion of energy expenditure too, with expenditure from all their meter points accounting for £3.5bn in 2018. Despite the evolution of the regulatory framework in recent years, our evidence base, including recently published research, suggests that the market is not working well for some microbusinesses.



Theories of Harm

In our Call for Inputs (CfI) alongside our Opening Statement that we published in May 2019, we outlined our theories of harm (ToH) which represented areas where either we already saw some evidence of detriment or suspect consumer harm.

Overarching Theories of Harm

1. The **smallest microbusinesses cannot effectively engage with the current market given its complexity**, including the very wide range of offerings and providers. At present their size and lack of expertise places them at a significant disadvantage when engaging with providers, leading to them ending up on expensive and/or unsuitable deals.
2. The cost of disengagement is higher for microbusinesses than disengaged domestic consumers leading to **disengaged microbusinesses overpaying for their energy**.
3. Barriers to accessing, using and sharing consumption data are **preventing some microbusinesses fully benefiting from smart data** and other technological innovations. This is hampering their ability to make informed switching decisions, use energy more efficiently and budget effectively.

Aware

4. A significant number of **microbusinesses are generally unaware of the opportunities presented by the market, their rights, and company obligations**. This is leading to a lack of engagement and/or a substandard experience during the customer journey.

Browse

5. Despite the CMA's attempts to improve price transparency, **pricing is still not fully transparent** and it is difficult to compare prices. This is leading to a significant proportion of microbusinesses not identifying the best deals

Contract

6. The **supplier/TPI contracting process is, or is perceived to be, overly complex, costly and opaque**, leading to some consumers ending up on costly contracts with disadvantageous terms.
7. Microbusinesses often rely on brokers to switch and weak broker regulation is allowing room for **sharp practices by some brok**ers. Gaps in current consumer redress mechanisms add further to this harm.

Dialogue

8. The absence of rules concerning debt management in this segment of the market is resulting in some **microbusinesses who are struggling with debt being treated unfairly** and not benefiting from customer-focused debt management policies and processes.

Aim

<u>Identify suitable short-term measures to improve outcomes for microbusinesses</u> by further developing our evidence base to assess the nature and impact of challenges microbusinesses face

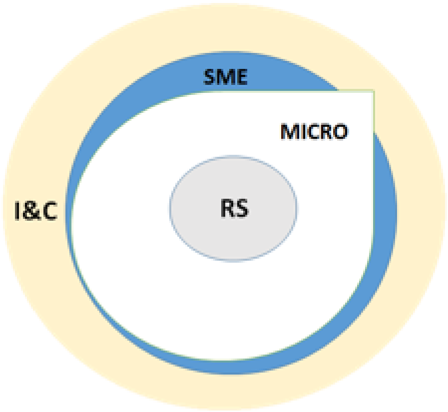
Scope

<u>Microbusinesses as defined in the gas and electricity supply licences experience at each stage of their customer journey</u>

Note: larger businesses and home-based single site businesses thus excluded but role of several market participants along customer journey included

Ofgem's microbusiness definition

- Annual electricity consumption ≤ 100 MWh; or
- Gas consumption ≤ 293 MWh; or
- <10 full time employees and <€2m turnover or balance sheet



We are using this model to help effectively target policy interventions.

Aware
- Understand that better deals/service is available

Browse
- Search for a new deal

Contract
- Sign up to a new deal

Dialogue
- In-deal conversations (e.g. about debt)

Exit
- Leave existing provider

Programme pathway

Pre-Apr	**Phase 1**: Building stakeholder network, creating Theories of Harm and publishing Opening statements
May-Sep	**Phase 2**: Preparatory policy and evidence gathering projects
Sep-Dec	**Phase 3**: Evidence analysis & policy proposals longlisting
Jan-Jun 20	**Phase 4**: Policy proposals shortlisting and development
Jun 20 - Dec/Mar 21	**Phase 5**: Implement policy reform package

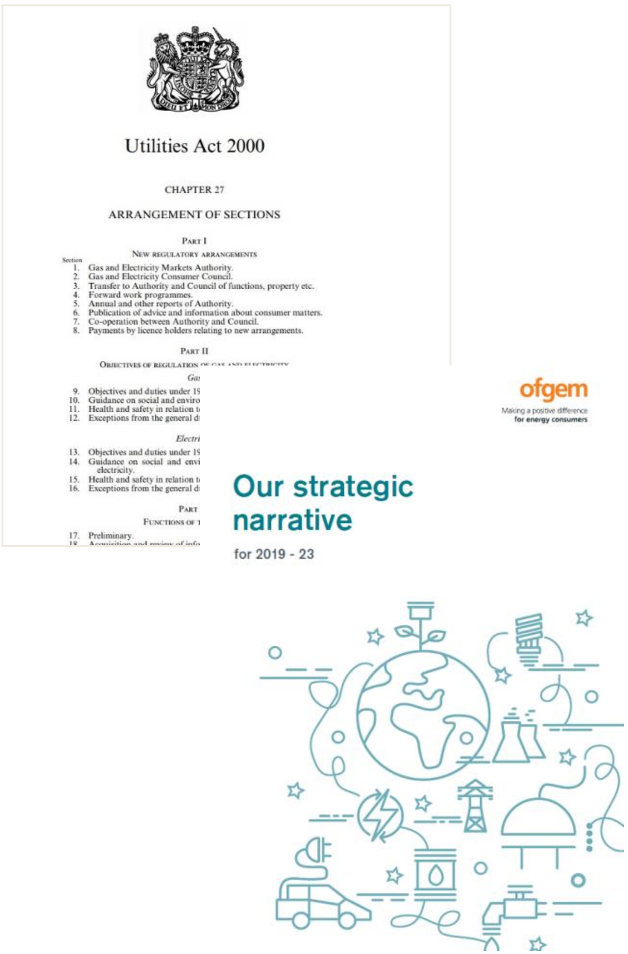
Next steps

- We will publish our Winter Action Plan
- Implement interventions within FWP timeframe ie by March 2021
- Use TPI forum and others to work with TPIs on development of interventions

Questions from the floor

- DBEIS and Ofgem (2019) Future energy retail market review. Available at: https://www.gov.uk/government/publications/future-energy-retail-market-review
- Ofgem (2018), Micro and Small Business Engagement Survey 2018. Available at: https://www.ofgem.gov.uk/publications-and-updates/micro-and-small-business-engagement-survey-2018
- Ofgem (2014), Third Party Intermediaries (TPI): Proposals for regulating non-domestic TPIs. Available at: https://www.ofgem.gov.uk/publications-and-updates/third-party-intermediaries-tpi-proposals-regulating-non-domestic-tpis
- House of Commons Library (2018), Business statistics. Available at: https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf
- BEIS (2018) After the trilemma - 4 principles for the power sector. Available at: https://www.gov.uk/government/speeches/after-the-trilemma-4-principles-for-the-power-sector
- Ofgem (2019), Opening Statement - Strategic Review of the microbusiness retail market. Available at: https://www.ofgem.gov.uk/publications-and-updates/opening-statement-strategic-review-microbusiness-retail-market

Consumer vulnerability in the energy market



- **Our principal duty is to protect the interest of current and future consumers**

- **Protecting consumers, especially those in vulnerable situations, is a key priority for Ofgem as set out in our Strategic Narrative 2019-23**

- We are **updating our existing Consumer Vulnerability Strategy** to ensure the market delivers for consumers in vulnerable situations

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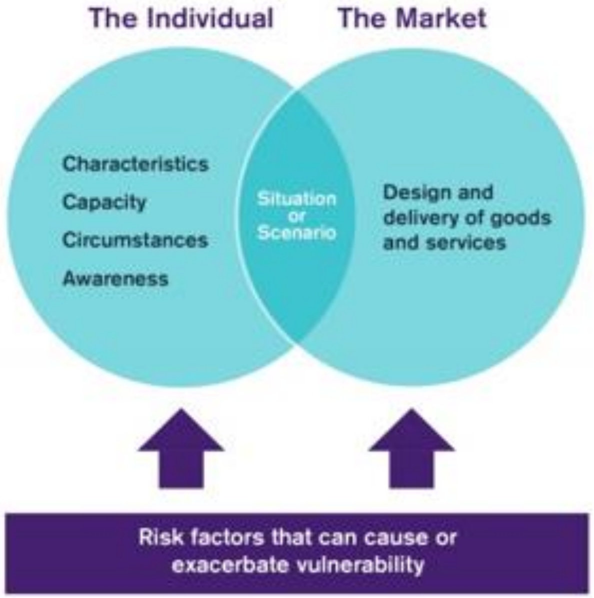
We define vulnerability as when a consumer's personal circumstances and characteristics combine with aspects of the market to create situations where he or she is:

- Significantly less able than a typical consumer to protect or represent his or her interests in the energy market; and/or
- Significantly more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial



Why considerations of vulnerability are important

Change

Vulnerability in society is changing, so is our understanding of barriers to engagement

The energy market is changing: **digitalisation, decarbonisation and decentralisation** are likely to rapidly change business models

The nature of vulnerability

Can impact everyone

These are the people often at **highest risk of detriment**

Vulnerability is transient as circumstances can change

Consumer Vulnerability Strategy 2025

- We published our draft Consumer Vulnerability Strategy 2025 in June 2019
- It sets out our priorities to ensure consumers in vulnerable situations are at the heart of key considerations
- Final strategy to be published later this year

CVS respondents' views on TPIs

Reponses to our draft CVS 2025:

Recognise customers increasingly choosing to engage with TPIs, PCWs and auto-switching sites

Respondents mentioned collective switching trials have been successful in delivering good outcomes for vulnerable consumers

Regulation of PCWs and TPIs featured prominently, including having vulnerability obligations similar to that of regulated energy companies, which should include rules around displaying certain information on their websites

Concerns about vulnerable groups being excluded from innovation; respondents desire us to have a focus on tackling digital exclusion

Need to consider the role of TPIs including PCWs and auto switching providers, and their interactions with customers in vulnerable situations

Questions for discussion:

- What role do you think you can play in helping consumers in vulnerable situations?
- How are you currently helping consumers in vulnerable circumstances?

Any questions for us?

Please contact Consumers.Directorate@ofgem.gov.uk if you would like to engage with us on the strategy.

Data Access Arrangements (DAA) Harmonisation

Background

We conducted interviews with a wide range of stakeholders, including TPIs, in May - June 2019 to identify issues experienced when currently trying to accessing consumer data and to inform our work on the future consumer data landscape

Information from TPIs…& some innovators

- **Data completeness, clarity & complexity of access arrangements:**
  - complex access arrangements (need to engage multiple data providers, often via expensive 'supplier-in-a-box' route)
  - bilateral access arrangements to access some supplier-specific data (esp. for settlement & supply unless partner is licensed supplier)
  - available data incomplete (& additional data required)
  - lack of clarity on where to access data & the process for gaining access
  - difficult and time-consuming to navigate complex regulation
  - government & Ofgem strategic vision, communications, assistance & advice uncertain & inconsistent

- **Problems with data access & quality have negative impacts on consumers:**
  - consumers need to manually input their data such as current tariff name (error prone)
  - consumers' trust in savings shown to them is impacted as consumers are unsure of data accuracy & calculations based on them

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Harmonising existing data access arrangements (DAA)

TPIs

Our plan

Develop standard agreements for API access, harmonised across fuels where possible

Improve transparency around the content of standard Data Access Agreements

Provide helpful guidance on the process for gaining access to the APIs

Where we're at

- Work being led by Gemserv and Xoserve
- Changes progressed through industry processes
- At an early stage & we're still bottoming out what is possible

Aims

- Address the problems experienced by TPIs
- Make sure that any changes = improvement

Get involved

Work with us to input into DAA harmonisation:

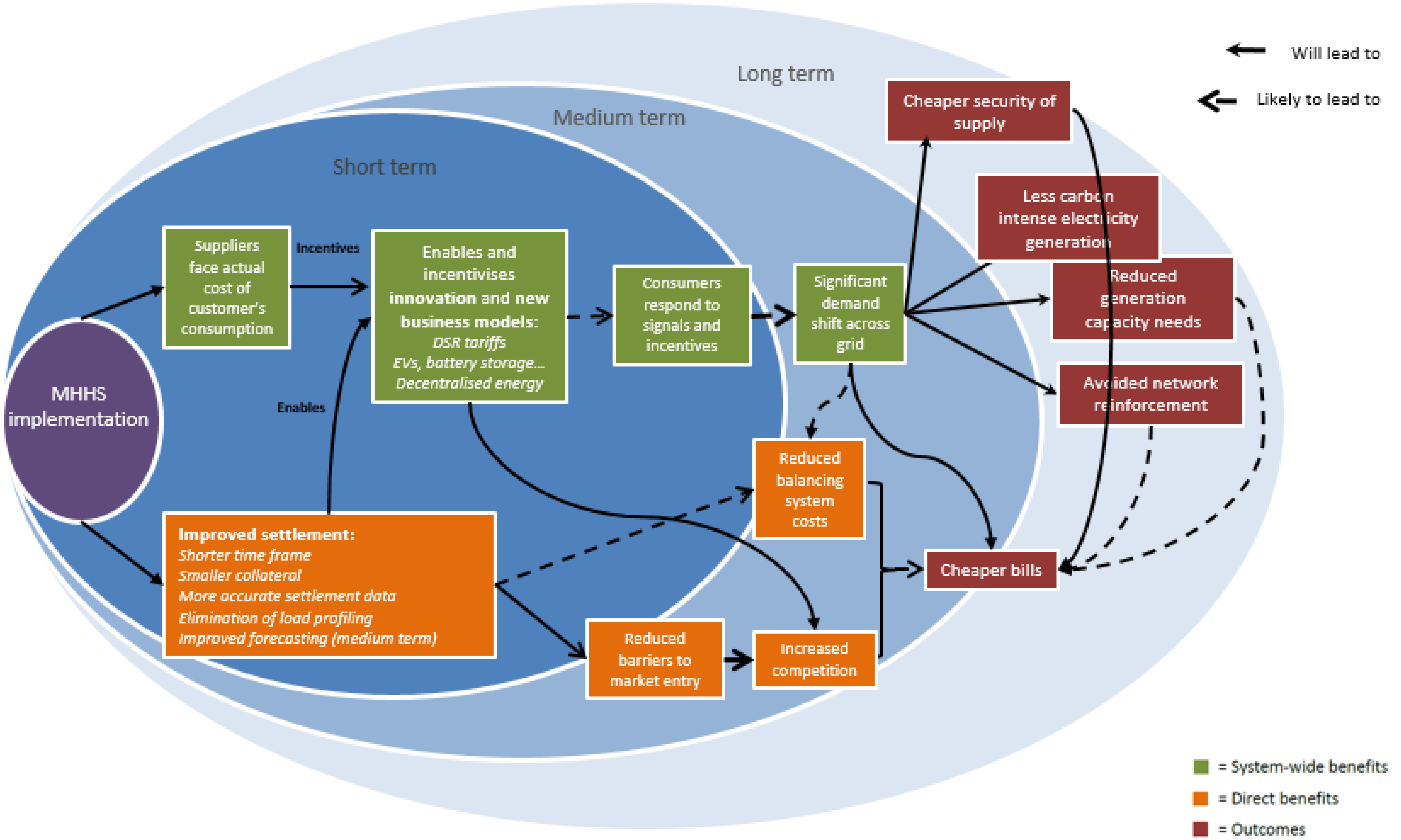
- Tell us about you experiences in accessing data
- Give feedback on proposed DAA changes
- Get in touch: FutureConsumers@ofgem.gov.uk

We're progressing this work throughout October and November, so please get in touch by **7th October 2019** if you want to be involved

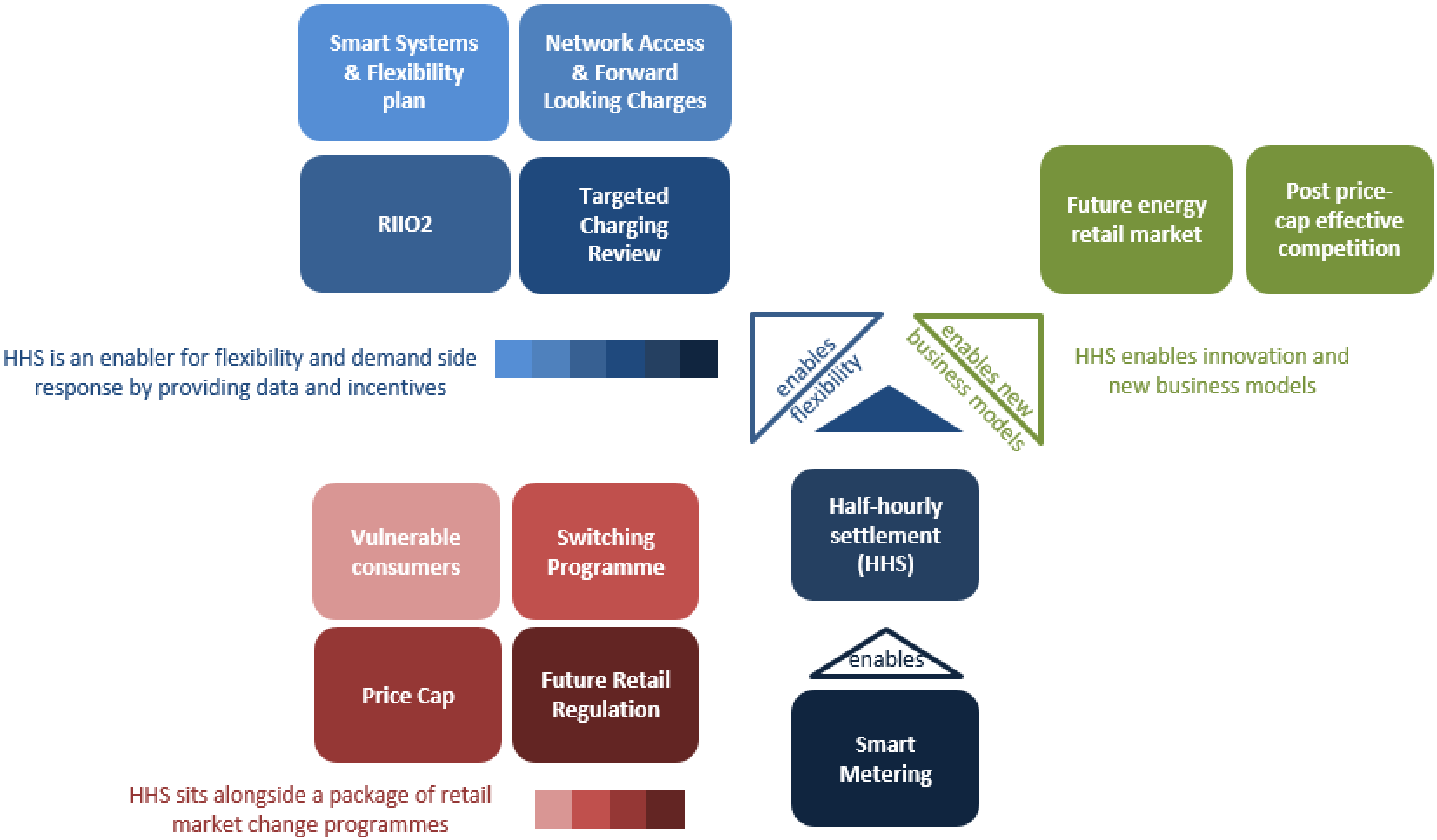
Settlement Reform: Project Update

Contents

Settlement Reform: Benefits



Strategic interactions



Access to data decisions (June 2019)

1. Domestic consumers - Legal obligation to process HH consumption data for settlement purposes, unless the consumer opts out

2. Microbusinesses – Legal obligation to process HH consumption data for settlement purposes (no opt-out)

3. Enhanced privacy - Ruled out

4. Existing customers – Subject to the existing rules until they decide to change electricity contract

5. Forecasting - Suppliers are also permitted to use HH data collected for settlement purposes for forecasting purposes

6. Export data – Right to opt-out should not be available for export data

7. Future review – Following implementation, we will be reviewing the evidence to understand if the framework is appropriate in order to realise the benefits of MHHS. We will set out our expected review date when publishing our final decision on MHHS

Responses and summary published (8 July 2019)

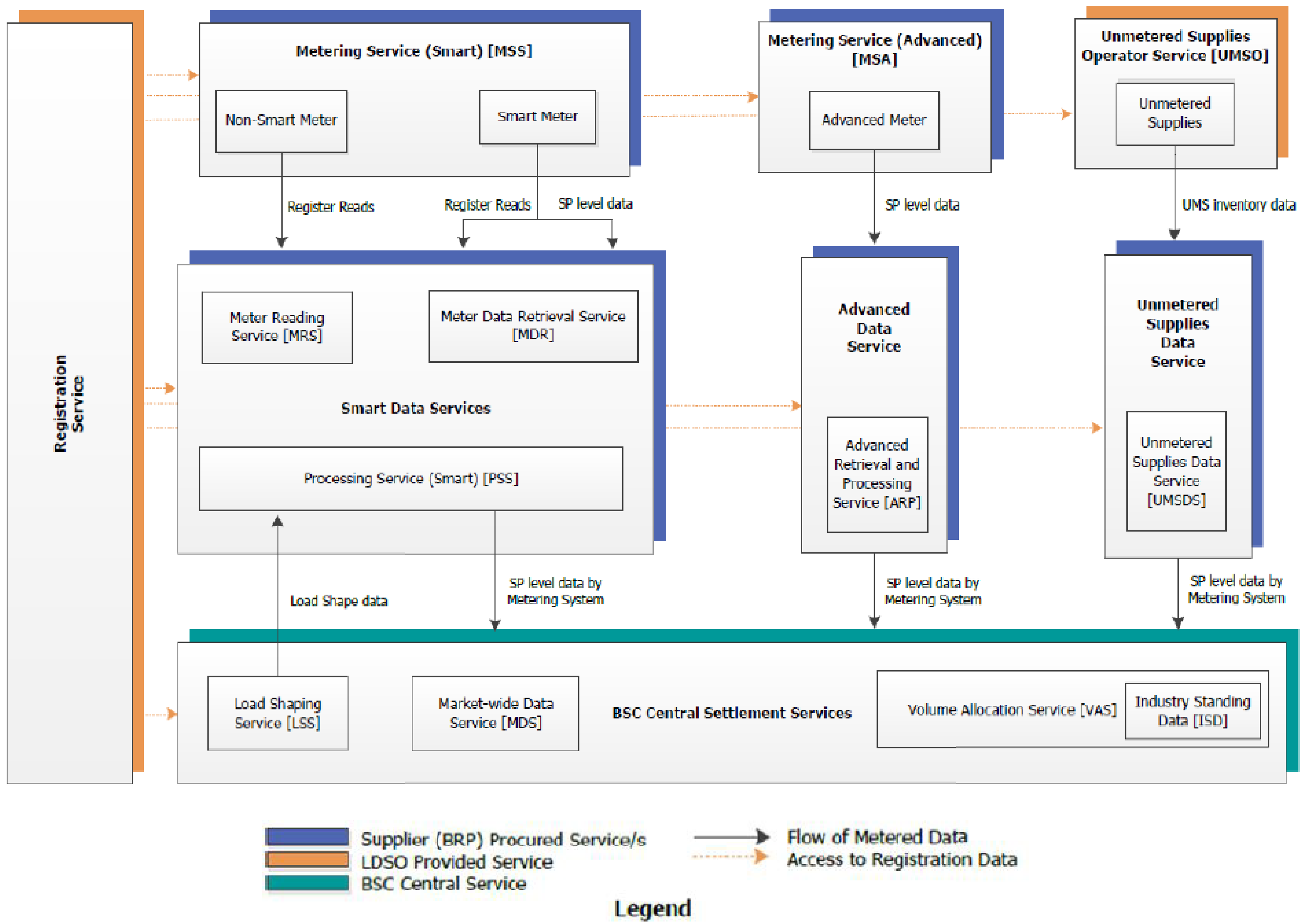
Main messages

- Tailored customer communications work best: messages should be simple, clear and easy to understand
- Small non-domestic consumers are 'time poor', they rely on trusted parties (TPIs) and buy on price
- Make benefits tangible - in particular, defined and relatable cost savings - to encourage engagement and load shifting
- Consumers will prefer future tariffs/options matching their lifestyles: few will prefer flexible, dynamic ToU tariffs – automation with manual override?
- Offer longer cooling off periods and no exit fees on flexibility tariffs and services
- Vulnerable consumers need targeted support to overcome concerns about the affordability of and ability to access new technology

Target Operating Model:

- The Target Operating Model (TOM) sets out the future operation of Market-wide Half-Hourly Settlement (MHHS) as well as the transition approach
- TOM designed by the ELEXON-chaired Design Working Group (DWG)
- Design Advisory Board (DAB) is advising the Ofgem Senior Responsible Owner who will take the final decision on the TOM
- The DWG recommends:
  - a phased transition approach – no ‘Big Bang’, with incremental stages
  - different market segments can transition at different times
  - move to the new settlement timetable once the full TOM is in place

DWG Preferred Target Operating Model



Business Case progress and next steps

- A 3-stage assessment of the case. We have published Strategic and Outline Business Cases

- The final stage, the Full Business Case, will include an economic impact assessment (IA) of costs/benefits

- Last month we published a request for information (RFI)
  - Enable comparison of Business as Usual and MHHS
  - IT and operational costs
  - innovation and competition effects
  - forecasting and balancing impacts
  - import and export MPANs
  - implementation over varying timescales

- The RFI will inform a draft version of the IA, which we will consult on early next year

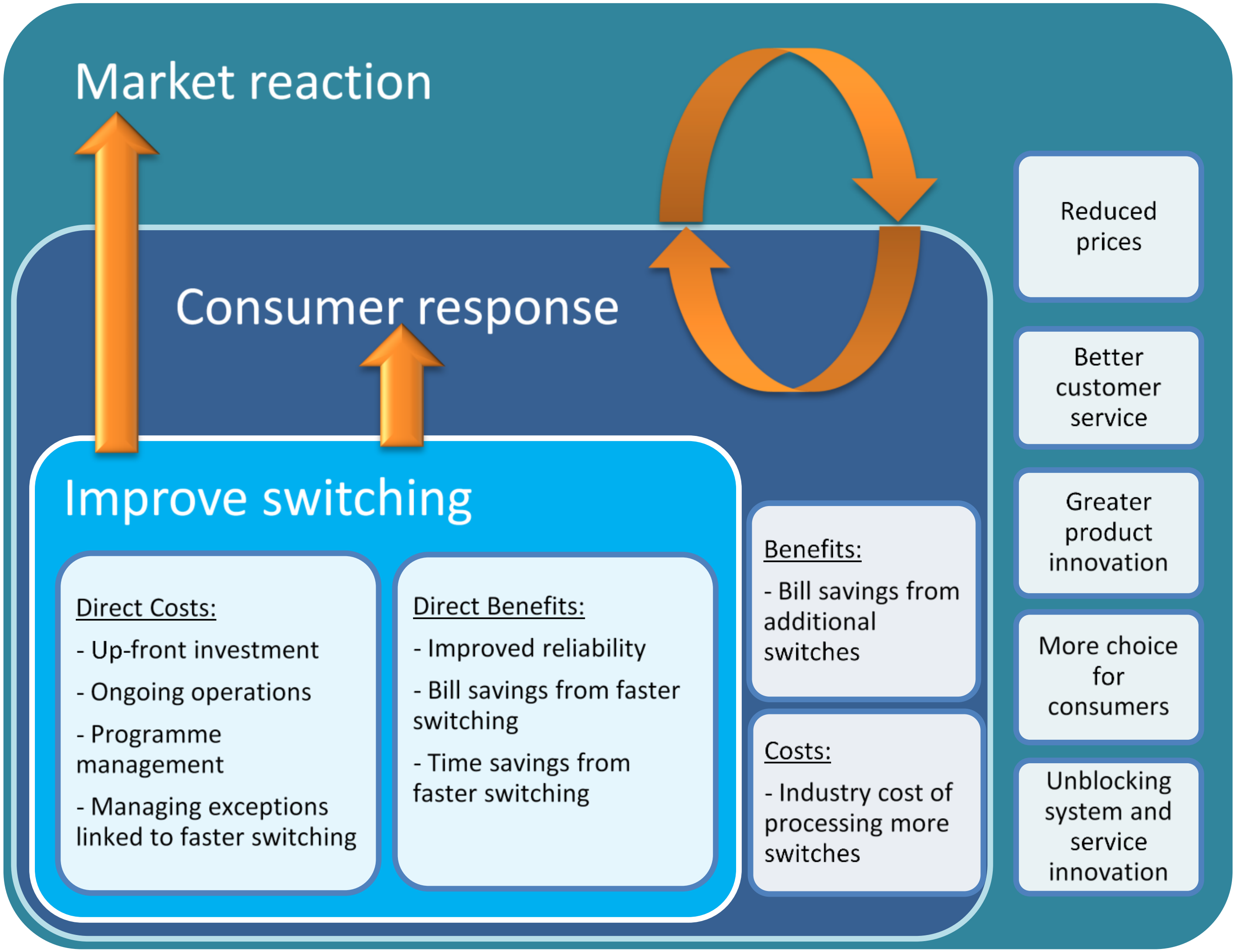
Any Questions?

Please contact us at

Half-HourlySettlement@ofgem.gov.uk

Switching Programme

Rationale for the Programme and Key Features of Future Switching Arrangements



- Next Working Day Switch
- Gas and Electricity Processes Harmonised
- Improved Data for Reliability
- Centralised System
- Platform for Innovation
- Much Improved Consumer Experience

Timelines

- October 2019: Programme Plan baselined (off the back of DCC entering in to contracts with the Central Switching System and System Integrator)
- October 2019: Programme Participants Mobilised
- October 2019: External Physical Interfaces baselined and Programme Participants to begin build activity
- Systems Integration Testing to start March 2020
- User Entry Process Testing to start September 2020
- End to End testing to start October 2020 and complete March 2021
- Programme go or no-go decision and subsequent go-live decision to be taken Summer 2021

The Retail Energy Code

- A best in class code
- Putting consumers at the centre
- An opportunity for new code governance
- Plain English
- Digitised

- **The Retail Energy Code provides the basis for ensuring that all energy suppliers, and other key market participants, will operate in line with programme plans and timelines.**

- REC v1.0 (live) will provide the transitional requirements on parties to play their part in the design, build and test of the new systems and processes for faster, more reliable switching

- REC v2.0 will supersede and replace the transitional requirements with the enduring requirements to make the new switching arrangements work and provide governance for the parties involved at the time of go-live of the new systems and processes

- REC v3.0 will incorporate relevant provisions from the MRA and the SPAA, providing a significant opportunity for code consolidation and rationalisation.

- **Energy suppliers are party to the REC. Changes to supplier obligations through the REC will be reflected in contractual arrangements with supplier agents**

- We are largely dealing with licensed parties and expect them to work out how contractual arrangements with TPIs and agents need to evolve.

- Points of interest for TPIs, discussed so far and to be continued:

    - Impacts on TPI systems and ways of working
    - Access to data, including DES and ECOES
    - Opportunities for testing

- Potential for innovation and better data

- Please contact us at switchingprogramme@ofgem.gov.uk if you have any questions

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for energy consumers

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.