



Ofgem-BEIS Independent Suppliers Forum

7 December 2018







Introduction from chairs

Rachel Clark, Programme Director, Switching Programme, Ofgem

Jane Walker, Deputy Director, Energy Markets & Affordability, BEIS





Agenda		
10:10	Welcome speeches	
10.25	Complaints/SOR	
10:45	Unidentified Gas	
11:05	Smart Meters	
11:45	Supplier Licensing Review	
12:05	Lunch	
13:00	Default tariff cap	
13:20	Market-wide Settlement Reform	
13:45	Switching	
14:10	Guaranteed Standards in Switching	
14:30	Coffee Break	
14:45	Midata	
15:05	Future Retail Markets	





Welcome from keynote speakers

Mary Starks, Executive Director, Consumers and Markets, Ofgem

Dan Monzani, Director, Energy Security, Networks & Markets, BEIS



Complaints and Social Obligations Reporting

Ofgem-BEIS Independent Suppliers Forum 7 December 2018



Monica Gandolfi and Evan Williams



Regular reporting of domestic and microbusiness complaints

Consultation on the revisions to Social Obligations Reporting (SOR)

Complaints



- Ofgem has a duty to monitor how energy markets work for consumers, including complaints as a key quality of service indicator among others.
- Greater transparency on complaints and complaints handling can provide an important incentive to suppliers to improve their performance.
- All suppliers have a legal obligation to submit complaints data to us under the current enduring mandatory information request – this presentation aims at clarifying this requirement





Monthly returns

Total number of complaints received

Repeat/reopened complaints

Breakdown of all complaints by type

Number of customer accounts (end of the month)

Quarterly returns

Contacts and complaints received by channel

Complaints resolved by resolution time

Number of letters signposting the Ombudsman

Number of customer accounts (end of the quarter)

Please read very carefully our online complaints guidance

Both returns must be submitted separately for domestic and microbusiness customers





Have you received our formal RFI letter in January 2018? No

Yes

Please request such a letter by sending email to Complaints Data
oofgem.gov.uk

Timely and accurate submissions to us and Citizens Advice

submitted data

for July – October and Q3 2018 – if

You must have

not please do so

asap!

Monthly returns: no later than the 28th day of the following month

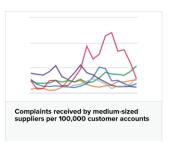
Quarterly returns: no later than the 28th day of the month following the end of the quarter

PLEASE USE THE EXCEL TEMPLATE PROVIDED



What complaints statistics do we publish?

Medium-sized suppliers

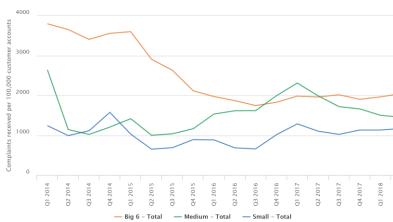






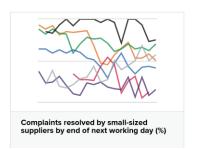
All suppliers

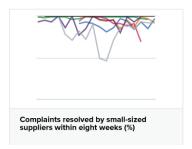
Complaints received by all suppliers per 100,000 customer accounts (GB)



Small-sized suppliers

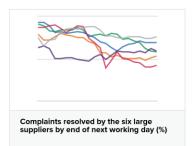






Six large suppliers







https://www.ofgem.gov.uk/consumers/energy-supplier-comparison-data/compare-supplier-performance-complaints



- Should complaints that are promptly resolved be reported to us? See Guidance page 4
- How should multiple complaints be reported when they are raised within a single contact? See Guidance page 8
- What is a resolved complaint? Can deadlock and 8-week letters signposting the Ombudsman be considered as resolved complaints? See Guidance pages 16-17
- How should the complaint resolution time be calculated for our reporting purposes? See Guidance page 17

Social Obligations Reporting



Purpose of the Presentation

- To provide a brief update on the consultation
- Identify the main highlights
- Encourage responses to the consultation



Open

Consultation on Revisions to Social Obligations Reporting

Published: 22nd Nov 2018

Closing: 24th Jan 2019

Domestic consumers

Electricity- retail markets

Gas- retail markets

1 Associated Documents

We plan to consult on revisions to the data we collect from

suppliers in relation to their social obligations as we

streamline the data we collect and how we process it.



Section	Main Changes Proposed
Our approach to data collection for market monitoring	Changes to the approach to data collection.
Indicators related to domestic debt	Simplify and consolidate existing indicators, move indicators concerning debt from other sections.
Domestic debt repayment – non PPM customers	Simplify indicators relating to repayment methods, add categories for higher levels of debt repayment rates.
Domestic debt repayment – PPM customers	Changes for consistency with non PPM customer changes, additional national level data.
Debt Assignment Protocol	Remove indicator no longer needed, reduce collection frequency to annual and add clarifying question.
Indicators relating to disconnections	Remove questions from main indicator set and replace with a separate spreadsheet only for suppliers carrying out disconnections.
Smart meters	Clarification of definitions and indicators, removal of disconnection indicators, addition of failed top up question, and collection for each nation.
Indicators relating to the Priority Services Register	Reduce the number of questions, clarification of indicators and add question on data sharing.
Energy efficiency	Reduction in the number of indicators collected quarterly, clarification of indicators and removal of indicator no longer needed.
Self-disconnection	Suggested new indicator on self-disconnection.



- Please take a moment to look at the consultation
- Responses need not cover every question.
- Responses are due by 24/01/2019
- Thank you

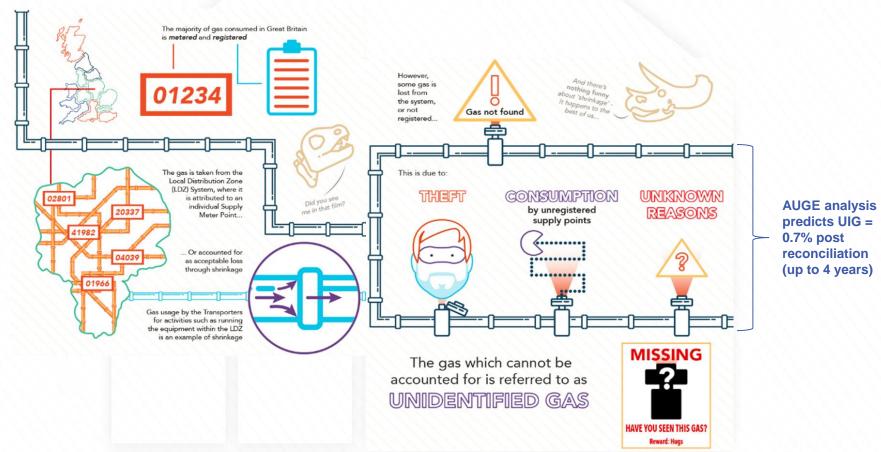
XOSETVE

Unidentified Gas Task Force Update

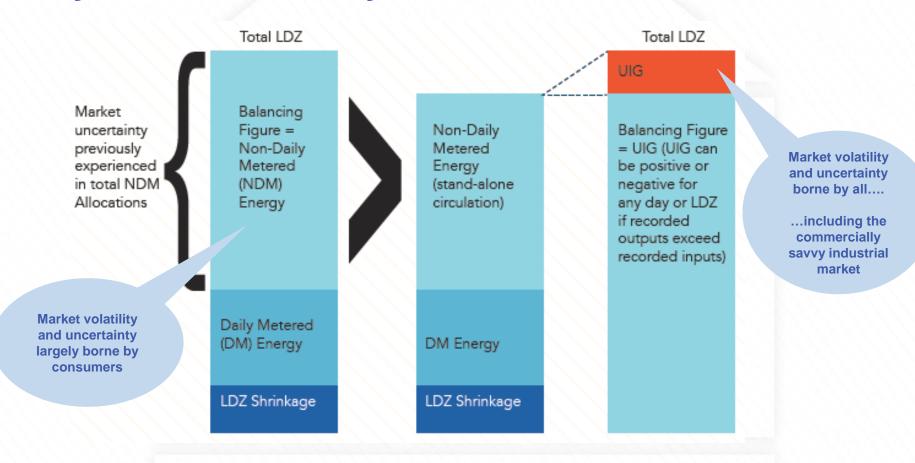
Fiona Cottam/Alex Stuart

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7 December 2018

What is Unidentified Gas or "UIG"?



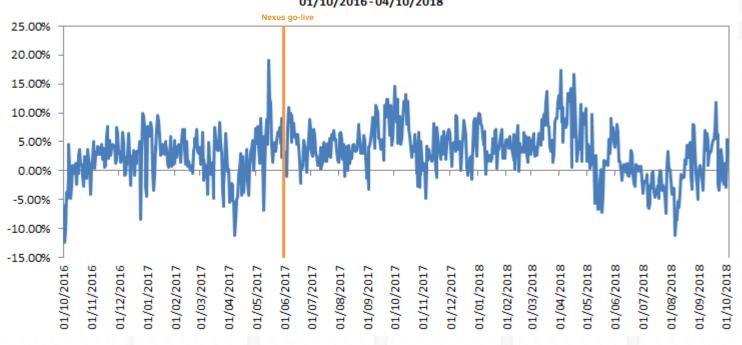
Why is UIG suddenly a new issue?



Why is UIG currently such a hot topic?

Daily National UIG as % of Total Throughput

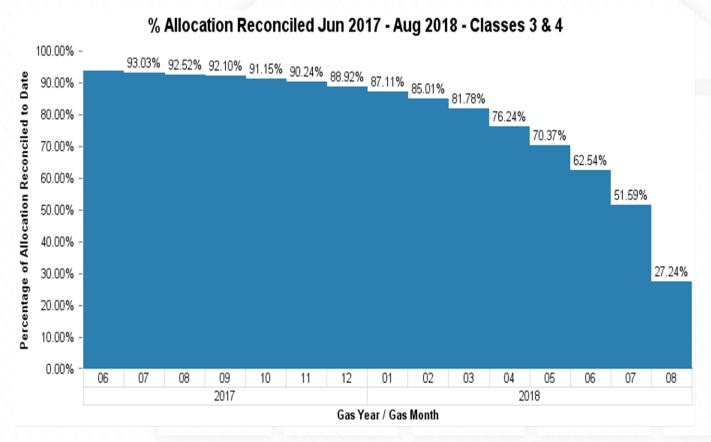
01/10/2016-04/10/2018



Absolute UIG and UIG volatility have been with us for a long time....

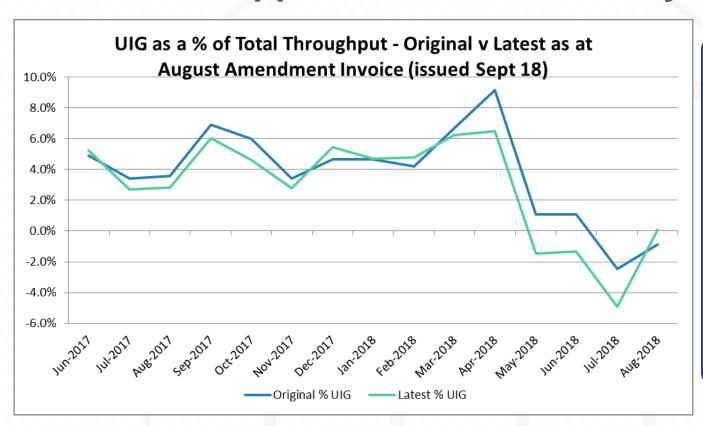
The question is should it be THIS volatile and will the ABSOLUTE levels post reconciliation reach 0.7%?

15 months on from Project Nexus....



c.80% of the energy allocated in the 15 months since Project Nexus go-live has reconciled in the UK Link system.

...UIG has dropped from 4.65% to only 4%*



UIG has averaged at 4.65% <u>at allocation</u> for the 15-months since Nexus.

Our customers believed it would average 1%.

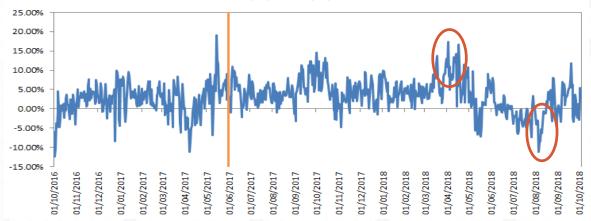
This created an unexpected cost of around £18m a month.

The national UIG average has reduced from 4.65% at allocation to 4% at reconciliation.

Xoserve UIG Task Force – two pronged approach

Daily National UIG as % of Total Throughput

01/10/2016-04/10/2018



Work-stream 1 objective: remove extreme volatility

The Xoserve task force is using advanced data analytics and machine learning to unpack the NDM algorithm, the input data and the way the market is operating – this is a very complex model and a large data set.

Work-stream 2 objective: reduce the absolute level of UIG

The Xoserve Task Force is using deep industry knowledge to identify all the drivers of absolute UIG and suggest ways in which industry can reduce this exposure.

Progress so far...Weather

Relationship to UIG

Daily weather is a key input into the daily estimation of gas usage of Non-Daily Metered (NDM) sites.

Task Force Hypothesis

"At allocation, the NDM estimation algorithm doesn't react well enough to weather-related changes in usage"

Discoveries to date

We've found that introducing extra weather data, for variables such as rainfall and solar radiation, into the NDM estimation algorithm could reduce the level of UIG.

Perceived timescales to fix

More than 1-year



...Annual Quantities

Relationship to UIG

The AQ is a site's estimated gas consumption total over a 12 month period.

If an AQ is wrong, this will lead to UIG.

Task Force Hypothesis

"A lack of regular meter readings will contribute to UIG: the AQ is updated if an actual meter reading is accepted by Xoserve."

Discoveries to date

We have identified a number of sites within a sample which are using significantly more gas than is indicated by their UK Link system AQ.

These outliers alone are contributing around 0.2% of national throughput to UIG.

Perceived timescales to fix

3 to 6 months



... Estimated Reads for Daily Metered Sites

Relationship to UIG

Estimated reads are used where no actual reads are available.

This may not be a good representation of the actual consumption and the difference would contribute to UIG.

Task Force Hypothesis

"A lack of regular meter readings will contribute to UIG: where actual reads are not received or are rejected, for Class 1 or 2 sites a D-7 estimate is used."

Discoveries to date

We've found a handful of large sites that should be daily metered.

Whilst they remain NDM, the difference between their actual and estimate usage is contributing to UIG.

We estimate this to be around 0.4% of total national throughput.

Perceived timescales to fix

3 to 6 months



...Standard Volume to Energy Conversion Factors

Relationship to UIG

The value used to convert cubic meters of gas into energy measured in kilowatt hours (kWh).

Task Force Hypothesis

"All sites under 732,000kWh AQ have a single industry standard conversation factor specified in legislation.

Any difference between this standard value and a more accurate value would contribute to UIG."

Discoveries to date

The standard volume to energy conversation factor for all smaller NDM sites contributes to higher UIG in winter and reduces in summer.

Annualised impact is weather dependent and we estimate a 0.4% of total national throughput contribution to UIG.

Perceived timescales to fix

More than 1-year



...EUC Winter Annual Ratio Bands

Relationship to UIG

The Winter-Annual Ratio (WAR) of larger NDM sites should determine which End User Category (EUC) a site is assigned to.

If a site consumes gas differently to its EUC/WAR Band profile, this leads to UIG.

Task Force Hypothesis

"If a large proportion of eligible sites are not in a specific WAR Band EUC, their daily gas allocation will be less accurate, with the difference being UIG."

Discoveries to date

28% of eligible sites do not have a WAR Band EUC as at 01/09/2018.

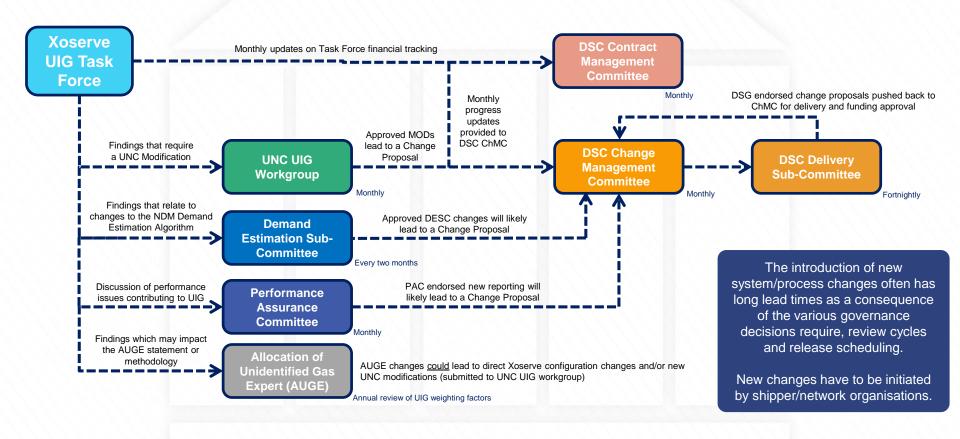
The Task Force estimates that this is contributing 0.15% of total national throughput to UIG, and as much as 0.7% on peak winter days.

Perceived timescales to fix

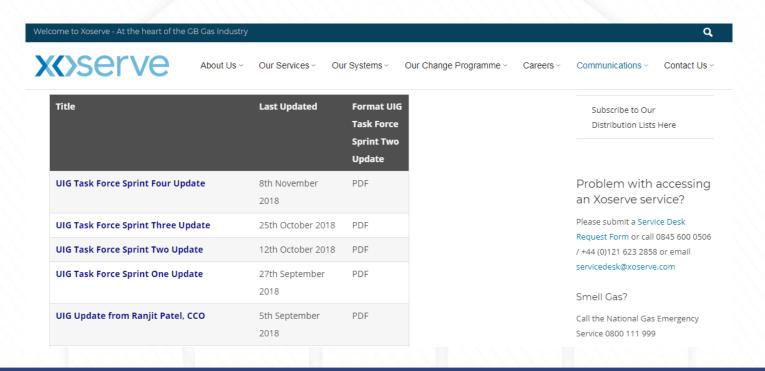
3 to 6 months



We operate within a complex and often time consuming industry change landscape...



Transparency and communication is key



The Xoserve UIG Task Force provides fortnightly updates and complete visibility of our progress, areas of focus and hard conclusions drawn – we make everything publicly available via Xoserve's company website: **xoserve.com**

XOSETVE



EFFECTIVE ENGAGEMENT WITH CUSTOMERS

OFGEM-BEIS INDEPENDENT SUPPLIERS FORUM 7 DECEMBER 2018



Current Smart DCC engagement

- Smart DCC routinely engages with its customers through a wide variety of forums, meetings and bilaterally
- Issues are often debated in multiple forums reflecting the different roles each plays and the subject matter under discussion
- However, much of our activity has been mandated by Government, limiting the scope for customers to influence it
- We recognise that some customers would like to see greater engagement on some topics



07 Dec 2018 | DCC Public

2

Engagement with customers – looking ahead

- Our monopoly status means that customers have no option but to fund DCC and recognise that you should be included in our decision making process
- We are facing a greater level of choice in our future plans
- We want to ensure customers have a genuine role in shaping our future plans
- It is reasonable that customers have a greater involvement in decision-making and, in particular, where there may be options
- How do we ensure that engagement is effective and that customers come to regard Smart DCC as being open, transparent and customer-focused?



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Consultation on Customer Engagement - overview

- We have launched a wide-ranging consultation on its approach to engagement
- There are many open questions we genuinely want to hear what you think about our ideas and any thoughts you may have!
- All contributions are welcome, including partial ones
- We are happy to engage in face to face/phone conversations, if this is more convenient
- Consultation closes on 31 January 2019 with a commitment to us issuing a formal response by March 2019



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Consultation on Customer Engagement - contents

Key contents include:

- Involving customers in business strategy and planning
- In-year engagement
- Sharing of cost data
- Using technology to enhance engagement
- Driving continuous improvement
- Practical considerations



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Summary

- We want to ensure that there is effective engagement with customers and stakeholders
- We need your help to make this possible!
- Please respond to our consultation a partial response is better than not being heard at all
- We are open to the use of emails, phone conversations or face to face and will factor any such into our conclusions



07 Dec 2018 | DCC Public



EFFECTIVE ENGAGEMENT WITH CUSTOMERS

OFGEM-BEIS INDEPENDENT SUPPLIERS FORUM 7 DECEMBER 2018

TABLE EXERCISE



For discussion and feedback

Customer engagement in Smart DCC decision-making:

- 1. What are the characteristics of effective engagement?
- 2. What do we do well at the moment and where could we improve?
- 3. What kinds of decisions would you like to be consulted on?
- 4. How do we create engagement opportunities that work for you?
 - Channels, Media, Participants, Ways of Working, Confidentiality etc.



Date | DCC Public



Supplier Licensing Review

Independent Suppliers Forum







- Overview
- Overarching aims/principles
- What are we consulting on?
- Proposed new entry criteria
- Proposed change to market entry timeline
- Options for ongoing requirements
- Options for exit arrangements/managing failure
- Indicative next steps



- We are reviewing our approach to licensing and regulating suppliers to ensure effective protections are in place for consumers against supplier financial instability and poor customer service.
- Forward Work Programme: Enabling a better functioning retail market
- The scope of our review includes three workstreams:
 - **Entry**: conditions for suppliers entering the market;
 - **Ongoing**: ongoing requirements, monitoring and engagement;
 - **Exit**: arrangements for managing supplier failure and market exit.



Overarching aims/principles

- Suppliers should adopt effective risk management and be adequately prepared and resourced for growth.
 - Suppliers should take a responsible approach to growth and bear an appropriate share of the risk, in order to reduce consumers' exposure to failure.
- Suppliers should maintain the capacity and capability to deliver a quality service to their customers, and foster an open/constructive dialogue with Ofgem.
 - Suppliers should understand, and be prepared to comply with, their obligations from the outset and as they grow. They should also be prepared to maintain a constructive relationship with Ofgem as the regulator.
- We maintain proportionate oversight of suppliers, and effective protections for consumers exist in the event of failure.
 - Our reforms aim to improve our visibility of market risks and our ability to act where needed, and minimise the wider market impacts of failure.
- Our licensing regime facilitates effective competition and enables innovation.
 - We will adopt a proportionate, risk-based approach, that is also in line with our commitment to principles based regulation.



What are we consulting on?

Entry

- Initial proposals
- We're seeking views on proposed new criteria, information requirements, and an amended market entry process

Ongoing

- High level options
- We intend to enhance oversight/assurance re financial resilience and conduct on an ongoing basis. We're seeking initial views.

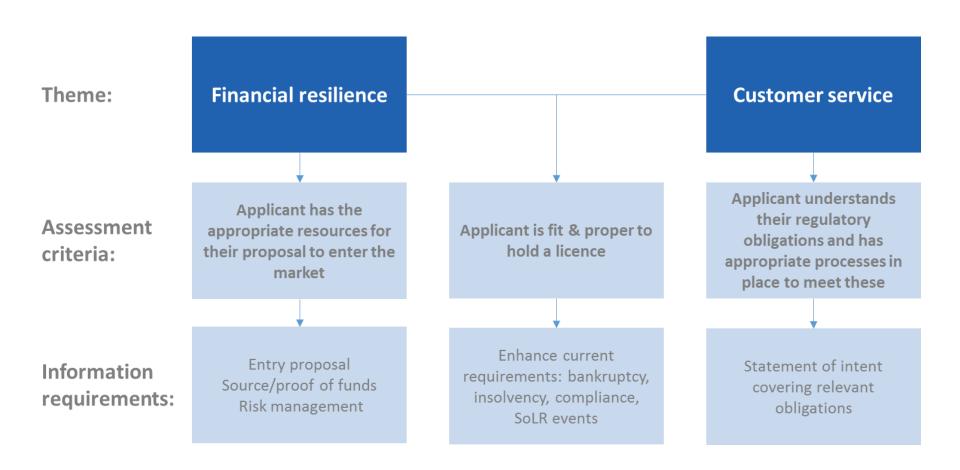
Exit

 We are considering potential new rules/restrictions on credit balances. This will feature in a separate consultation but we welcome any initial views.

Consultation closes <u>23 January 2019</u>



Proposed new entry criteria





Proposed change to market entry timeline

Current timeline (electricity) - licensing at start of market entry process



Proposed new model - licensing before Controlled Market Entry



We have proposed that the licensing process should be undertaken closer to market entry.

Prospective new entrants will be able to provide more detailed and accurate information on their plans, resources and ability to meet licence obligations. This proposal also takes account of the 'off the shelf' model of market entry.



Options for ongoing requirements

We are considering ongoing requirements for all suppliers which would build on the proposals we have set out for entry requirements.

Financial Resilience

We have set out a range of options. A combination of options may be most effective:

Type of requirement	Description	Aim
Cyclical	Require all suppliers to submit annual / periodic information e.g. Certificate of Adequacy / Annual Viability statement.	 Inform market monitoring across all suppliers Raise standards of supplier financial & risk management Be more prepared to act if potential failure
Targeted/strategic	Enhanced monitoring or assessment based on triggers eg customer numbers thresholds, significant changes to entry proposals, change of control	 Help to pre-empt or mitigate potential risks Any concerns could prompt further actions or measures
Prudential/financial	Capital adequacy requirements or new rules on credit balances (to be considered under WS3)	To reduce risk/impact of supplier failure.

Supplier conduct

 We are not reviewing the current compliance/monitoring framework but this may adapt to take account of the new entry requirements (and any new targeted monitoring approach, above, we might adopt)

Suitability to hold a licence

 We are considering an ongoing requirement on suppliers to be 'fit & proper', enabling us to reassess this eg following a material change in circumstances



Options for exit arrangements/managing failure

Customer credit balances

- We have set out a range of options we will consider:
 - imposing maximum limits on credit balances;
 - restricting suppliers from offering terms which incentivise customers to maintain credit balances;
 - ring-fenced or bonding credit balances;
 - reducing the time suppliers have to issue final bills and return credit balances to former customers.

Other potential reforms

- We will also review the SoLR process and licence revocation conditions
- We are not formally consulting on the options at this stage but welcome initial views/discussion.
- We are undertaking an RFI and will consult next year.



Indicative next steps

Entry

- January: our consultation closes 23 January
- March: consultation on our final proposals, including draft SIs and application guidance document
- May: new SIs expected to take effect

Ongoing

- **January**: our consultation closes 23 January
- **Spring:** we expect to bring forward proposals, with draft licence modifications
- Subject to final proposals, new ongoing requirements could be in place by Winter

Exit

- We are undertaking an RFI to understand more about credit balance practices/policies across the industry
- Our initial consultation will be published as soon as possible next year.



Questions?

Thank you





Networking Lunch 12:05 - 13:00



Default tariff (SVT) price cap: Implementation and Compliance

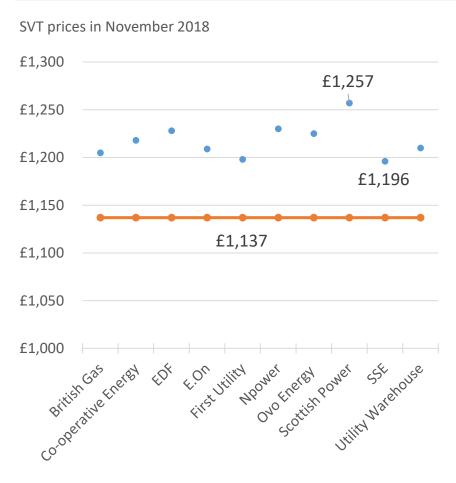
Independent Suppliers Forum



Andrew Tuffin
Head of Tariff Cap Design
7 December 2018



On 6 November, we published our <u>final decision</u> on the price cap



What is the default tariff cap?

- Protects all SVT customers, and those with default tariffs.
- Temporary. The cap will last 2 to 5 years, providing a fairer price while conditions for effective competition improve.
- Will remove around £1 billion of overcharging from consumers' bills.

What is the cap level?

- Varies depending a customer's circumstances: consumption, payment method, location, fuel and meter type.
- The first dual fuel cap level is £1,137 (in annual terms), for a typical SVT customer, paying by direct debit. It is £1,221 for typical standard credit customer.
- Updated every six months, to reflect changes in underlying costs.



In July 2018, Parliament passed the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the Act).

Objective: protect existing and future customers who pay standard variable and default rates.

Customers within scope: those on Evergreen, Default Fixed Term and Deemed contracts.

Tariffs out of scope: prepayment, SVTs that support Renewable generation.

Derogation: SVTs that support renewable generation of gas, or the generation of electricity.

To receive a derogation, suppliers must demonstrate that:

 the SVT provides, at a material cost, support for renewables beyond existing subsidies, and

customers actively chose that SVT (ie default customers are not on the tariff).

All suppliers: irrespective of whether they have received a derogation, will be required to have a

default tariff that is compliant with the cap.



There isn't one cap... there are many... which vary depending on your circumstances...

Table 1: Cap levels in January 2019, including VAT

Table 11 cap levels in January 2013, including vivi					
	Typical annual consumption level	Standing charge p/day	Unit rate p/kWh	Annualised standing charge	Annualised bill at typical consumption
Gas, single rate, direct debit	12,000 kWh	26p	3.7p	£94	£542
Electricity, single rate, direct debit	3,100 kWh	23p	16.5p	£83	£595
Implied dual fuel, direct debit	N/A	N/A	N/A	£177	£1,137
Gas, single rate, standard credit	12,000 kWh	30p	3.9p	£111	£582
Electricity, single rate, standard credit	3,100 kWh	27p	17.4p	£99	£639
Implied dual fuel, standard credit	N/A	N/A	N/A	£210	£1,221
Electricity, multi-register, direct debit	4,200 kWh	23p	15.4p	£83	£731
Electricity, multi-register, standard credit	4,200 kWh	27p	16.2p	£99	£781

Source: Ofgem, Model - default tariff cap level v1.1

Note: We set the cap level based on analysis of 2017 (described in Chapter 2). We then updated to the cap level using the methodology set out in Chapter 3, to establish these levels for a cap period from January to March 2019. Economy 7 customers have a higher TDCV (4,200 kWh) than single rate electricity customers (3,100 kWh), so their typical bill is higher. Economy 7 customers actually pay less per unit of consumption than single rate customers do.

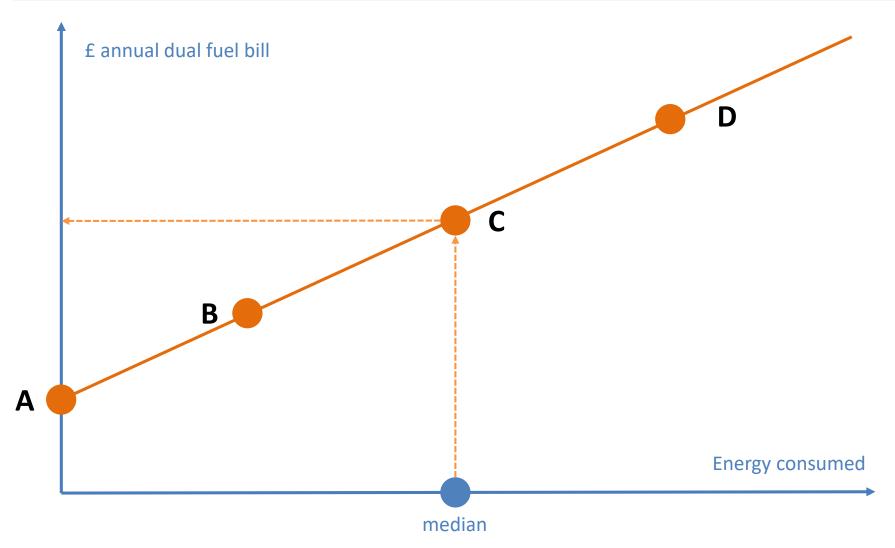
3 X 2 x 14 = 84 caps spilt by consumption and updated

• Which fuel and meter type?

- Gas
- Electricity (single rate)
- Electricity (multi register)
- Which payment type?
 - Direct debit
 - Standard credit
- Which region?
 - 14 network and distribution regions
- What consumption?
 - standing charge,
 - variable charge
- When? Updated every 6 months for changes in underlying efficient costs



Tariffs must be compliant at all levels of consumption





- We do not assess the annual tariff, at TDCV level, against the cap levels.
- Two Components: Standing Charge and Unit Rate.
- If either component is above the level of the cap, in any region, the tariff is **not** compliant.
- Licence condition 28AD specifies that "the licensee must ensure that for each of its Tariffs the aggregate Charges for Supply Activities applicable to any Relevant 28AD Customer **at any consumption level** (x kWh) in respect of a 28AD Charge Restriction Period do not exceed the Relevant Maximum Charge".
- We assess tariffs against the **implied maximum** standing charge and unit rate, per region.





From the published tables

Region, i	Nil kWh	m (3,100kWh)
North West (for example)	£74.39	£560.41

Calculating the implied maximum standing charge

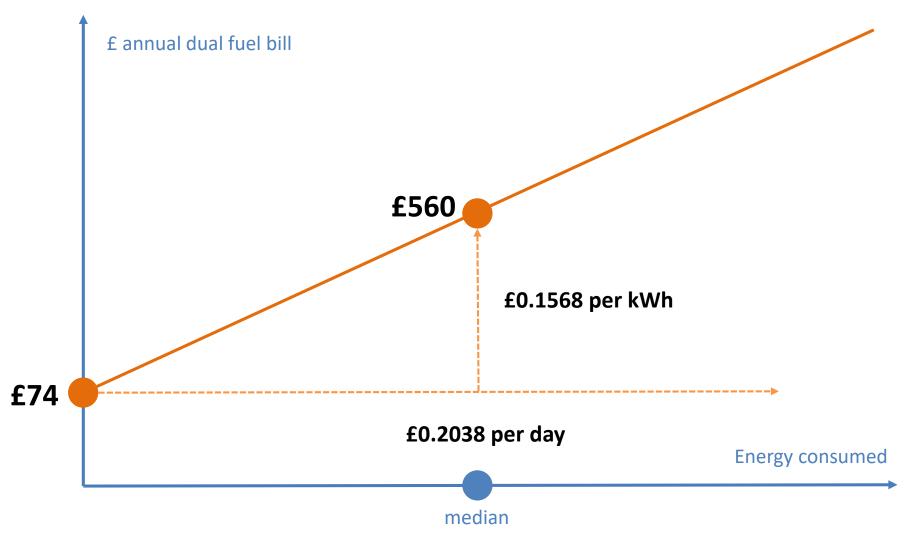
Region, i	Nil kWh		
North West	£74.39	а	Cap level (annualised)
	365	b	Days is the year
	£0.2038	a/b	Maximum daily standing charge

Calculating the implied maximum variable charge

Region, i	m (3,100kWh)		
North West	£560.41	а	Cap level
	-£74.39	b	Deduct the standing charge
	£486.02	a-b	Annualised typical variable element
	3100	С	Typical annual consumption
	£0.1568	(a-b)/c	Variable charge



Tariffs must be compliant at all levels of consumption







Direction: concerning the compliance of a particular Tariff with the Charge Restriction where, due to the structure of the relevant Tariff, the Charges for Supply Activities at certain consumption levels would exceed the Relevant Maximum Charge.

- Suppliers can provide evidence to the reasonable satisfaction of the Authority demonstrating that:
 - it is unlikely that Relevant 28AD Customers subject to such Tariff will have a consumption level which would cause them to incur Charges for Supply Activities in excess of the Relevant Maximum Charge.
- For example: zero-standing charge tariffs, with higher unit rates.



Tariff and Customer Account RFI

Issued: 21 November 2018.

Next Step: confirm two contacts responsible for submitting the data on Huddle, by emailing

Retailpriceregulation@ofgem.gov.uk by 12 December 2018.

Data to be submitted: by 07 January 2019.

If you are an active supplier in the domestic energy market and have not received the 'tariff and customer accounts' request for information, please do let us know by emailing Retailpriceregulation@ofgem.gov.uk



Any questions?



Update on Market-Wide Settlement Reform SCR



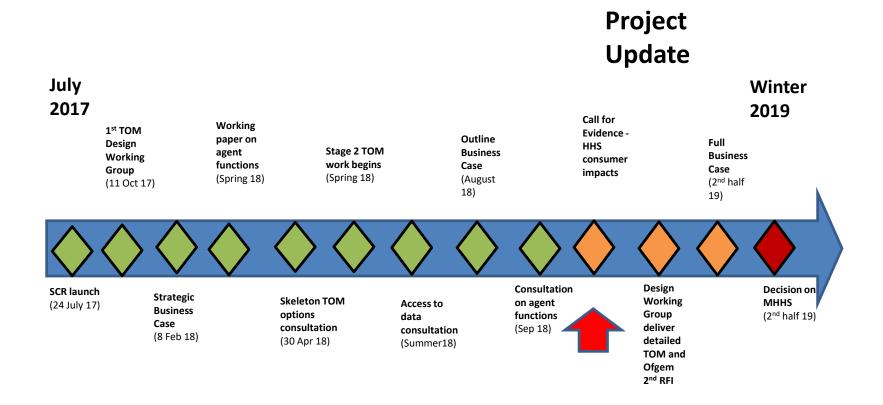
Anna Stacey 7 December 2018





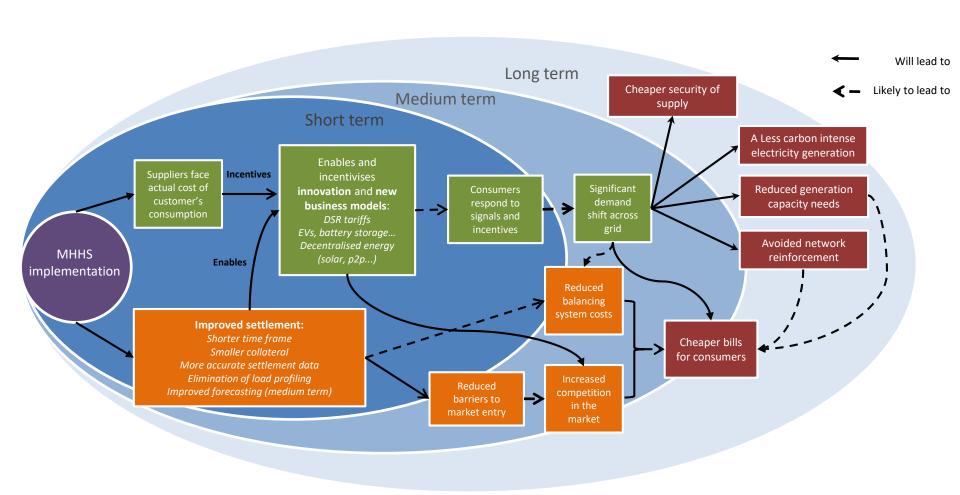
- Project overview
- Benefits of MHHS
- Business Case
- Consumers and Policy
- Target Operating Model
- How to get in touch with the Settlement Reform team







Realising the benefits





- Settlement Reform exposes suppliers to the true cost of supply consumers
 - incentivises development of new energy products to help customers be more engaged and move consumption away from peak/expensive periods
 - should lead to more efficient investment, and use of, generation and network infrastructure
- We are also exploring the potential distributional impacts of Settlement Reform
 - commissioned CEPA in 2017 to look into distributional impacts of smart tariffs. Findings available at: https://www.ofgem.gov.uk/publications-and-updates/distributional-impacts-time-use-tariffs



Business case

We are following HM Treasury best practice guidance to develop a Business Case based on the 5 Case Model methodology. This will include an economic impact assessment (the Economic Case).

Feb 2018

Aug 2018

2nd half 2019

Strategic Outline Case



Outline Business
Case



Full Business
Case

- Sets out the strategic case for change
- An initial outline of the scope of economic costs and benefits
- Initial thoughts on the other three cases

- Draft economic
 assessment of high level
 options for Settlement
 Reform, outlining
 potential range of costs
 and benefits
- Developed thinking on commercial, financial and management cases

- Detailed costing of specific options
- Relies on Target
 Operating Model work
 and policy decisions
- Set out plans to manage and deliver reform and the transition to market-wide HHS

See:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469317/green_book_guidance_public_sector business_cases_2015_update.pdf

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Policy and Consumer Questions

Ofgem is leading on consideration and decision making on the following policy and consumer questions separately from the Target Operating Model development:

Approach on whether or not to centralise functions currently performed by supplier agents – Consultation published September 2018

- Our proposed position was that our work on market-wide settlement reform should not include centralisation of agent functions
- We said we think that there may well be a case for future models where data is not aggregated for submission into central settlement systems
- We are considering the evidence to make our decision

The potential impacts on consumers of Settlement Reform and whether any additional protections will be needed as a result – Call for evidence to be published this Winter

Approach to access to data for settlement - Consultation published July 2018

- Access to half hourly data from smart meters is currently on an opt-in basis
- In our consultation we said we thought "opt-out" gave the best balance between preserving consumer choice over sharing data and realising system benefits. We are considering the evidence to make our decision.

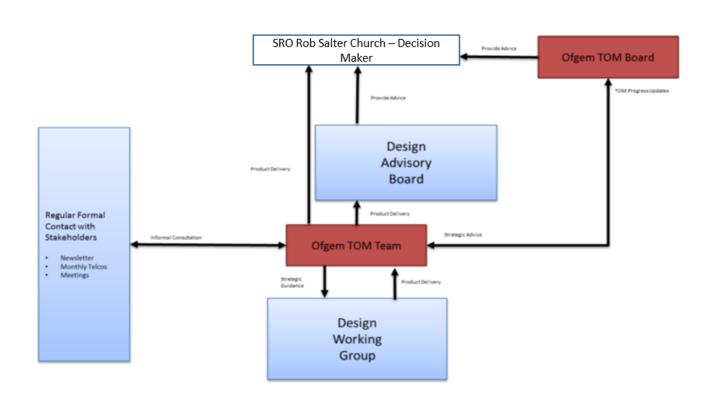


Target Operating Model

- The Target Operating Model (TOM) will set out the transitional and enduring settlement arrangements which will deliver Settlement Reform
- We want to ensure the TOM is future-enabling and does not impede new technologies and business models. For example:
 - > Electric vehicles
 - Demand-side response (local and wholesale)
 - Peer to peer trading
- Design of the TOM is being undertaken by an ELEXON-chaired Design Working Group (DWG) that will provide design options to Ofgem.
- Ofgem retains all decision-making authority on the TOM options



Target Operating Model





Target Operating Model

- The DWG have met regularly since October 2017 and have developed 5 high level 'skeleton' TOM options have been consulted on.
- Ofgem approved work to move to the next stage and in the second half of 2018 detailed design work took place on the TOM
- The DWG's final preferred TOM will be consulted on next year.





If you would like to find out more or be notified of future updates, please go to the Settlement Reform website: https://www.ofgem.gov.uk/electricity/retail-market/market-review-and-reform/smarter-markets-programme/electricity-settlement

Any questions, please email: half-hourlysettlement@ofgem.gov.uk



Switching Programme

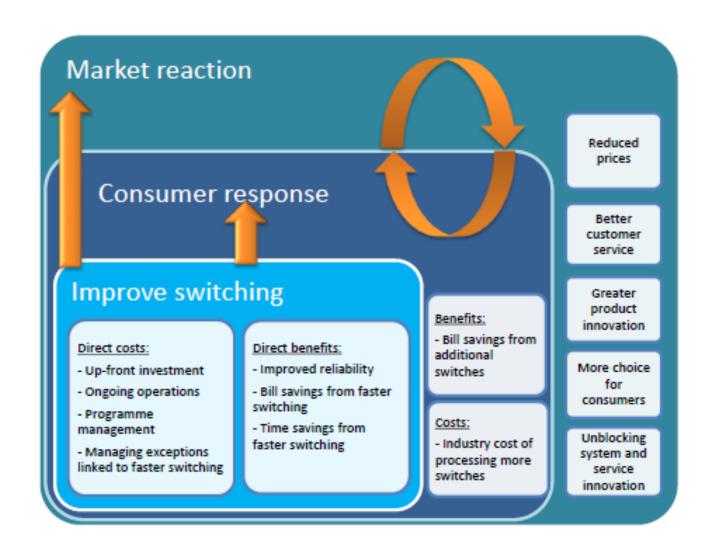
Delivering faster and more reliable switching for energy consumers





- Ofgem views it as vital that consumers can easily, and with confidence, switch energy suppliers. Switching strengthens competition in the energy market, which in turn benefits consumers
- The current arrangements are complex for suppliers and can lead to delays, errors and costs, which are often borne by consumers;
- Furthermore, there's long been a perception that switching is a hassle, meaning consumers remain disengaged and miss out on the benefits that switching could provide
- The Switching Programme is one initiative in a broader set of reforms that aim to encourage consumers to engage with the energy market;
- The advent of smart meters, half-hourly settlement, price caps, and more fundamental changes to the energy system itself, means the time is right to reform the switching arrangements too.





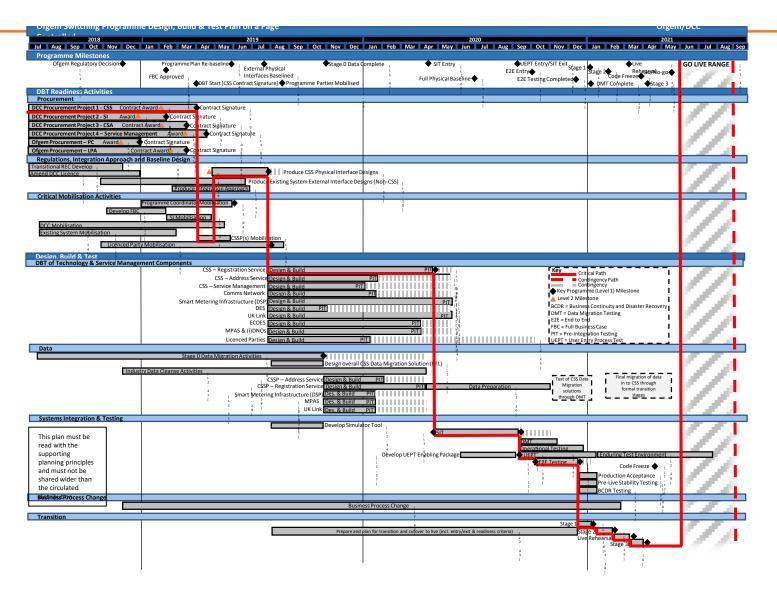


- The Switching Programme will deliver faster and more reliable switching by replacing the existing network run gas and electricity switching services with a new Centralised Switching Service (CSS)
- The DCC are a key delivery partner of Ofgem in the delivery of the end-to-end switching arrangements, through delivery of the design and procurement for the CSS and involvement in the development of the new arrangements;
- DCC will remain Ofgem's key delivery partner throughout the Design, Build, Test phase of the programme and will operate the CSS post Go-Live (subject to a consultation to extend DCC's licence conditions)
- In 2018 the Programme has largely been focussed on:
 - Completion of the full baseline logical design of the CSS
 - Developing the Design, Build, Test phase plan and governance model
 - · Developing and consulting on the regulatory approach
 - Developing and launch of the various procurement processes.

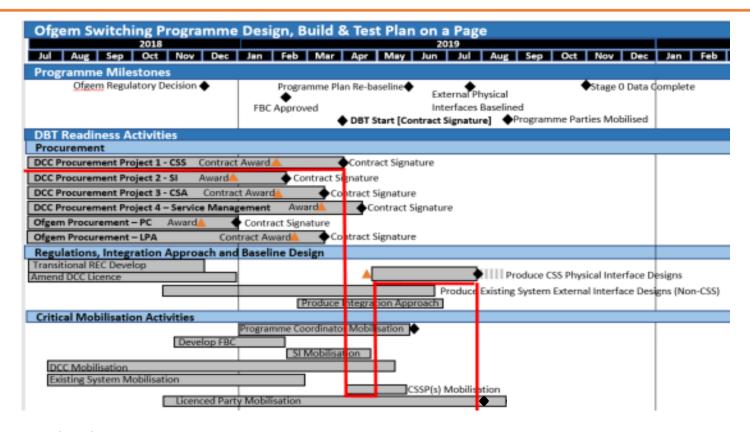


- With the detail contained in the logical design, combined with targeted stakeholder engagement we undertook in 2018, we are now able to make a robust estimate of the activity required in DBT and timescales for delivery, which has brought us to a go-live in summer 2021
- We are expecting to re-baseline the DBT plan once the CSS provider(s) are on board in May 2019
- We believe that the timeframe for go-live in summer 2021 is a reasonable yet ambitious target for undertaking one of the most complex transformations the energy industry has faced in decades.





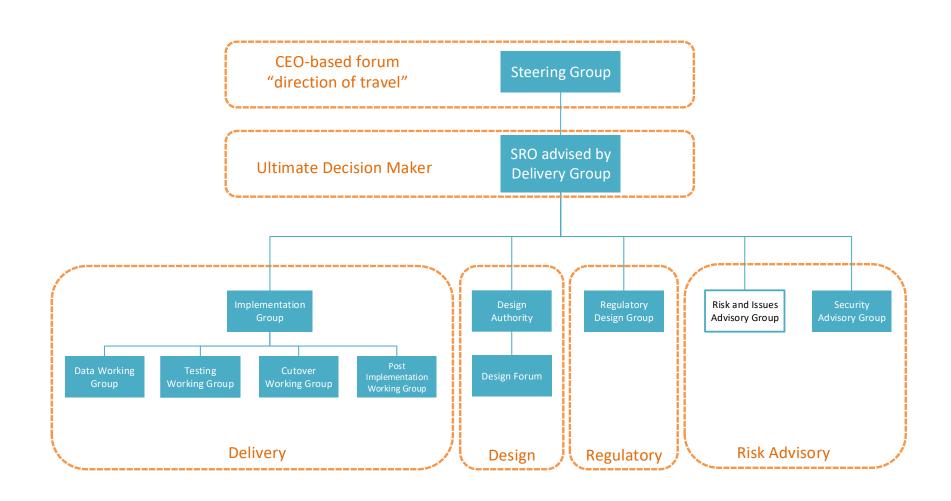




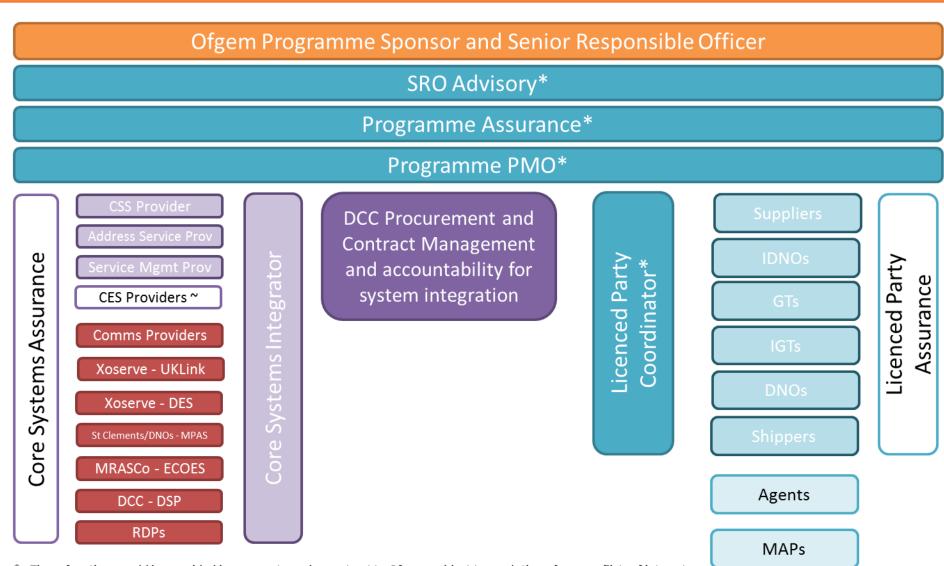
Critical Working Assumptions

- The SI and CSS providers can mobilise at point of contract signature.
- The SI Integration Approach needs to be baselined prior to DBT start.
- The External Interface Specifications will need to be baselined before Licenced Party participants can commence their DBT activities
- Existing System Providers can commence work on CSS agnostic work now









^{* -} These functions could be provided by one party under contract to Ofgem, subject to resolution of any conflicts of interest

^{~ -} CES Providers TBC



- Ofgem are leading the procurement process for a Programme Coordinator function to support throughout the delivery of the Switching Programme
- The Switching Programme presents a complex delivery challenge as over 100 organisations will need to work with Ofgem to plan and deliver this change
- The Programme Coordinator will support delivery by providing expertise through four key services:
 - Industry Coordination
 - A Programme Management Office
 - SRO Advice
 - Programme Assurance
- Ofgem will remain the ultimate decision-maker for the Programme and continue to play an active role in its delivery, getting involved 'at the coal face' where necessary to meet deliverables
- Procurement is well underway for the Programme Coordinator and we are on track to award the contract in early December.



- DCC are managing the procurement processes for:
 - Project 1: Central Switching Service
 - Project 2: Systems Integrator
 - Project 3: Core Systems Assurance
 - Project 4: Service Management
- The tender packs for projects 1, 2 and 3 have all been issued in recent months and the tender for project 4 is undergoing finalisation and will soon be issued
- DCC are leading on the evaluation processes of the above, in close collaboration with Ofgem and with input from industry representatives
- Ofgem have recently published a statutory consultation, which includes changes to DCC's licence to place obligations on them in respect of delivery and operations of the new switching arrangements



What is the Retail Energy Code

- The new Retail Energy Code (REC) will be a harmonised dual fuel code covering all retail requirements
- The recently published statutory consultation provides a draft text for the REC and a near complete set of operational schedules for the new switching arrangements
- This is a significant programme milestone and provides the basis for ensuring that all energy suppliers, and other key market participants, will operate in line with programme plans and timelines.



Three stages of developing the REC

- REC v1.0 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.



- The Switching Programme will deliver not only faster but also more **reliable** switching for consumers. One of the key reasons that consumers experience a failed switch is as a result of data reliability
- Therefore the Programme has at its centre an objective to deliver more reliable data across industry
- There is a significant amount of work for parties to undertake between now and go-live in order to meet this objective
- One of the first priorities that we have asked programme participants to look at has been "Stage 0" data activities. These represent a number of activities that include data cleansing such as Plot to Postal address cleansing and transferring data items to prepare for the data migration process.





Questions



Guaranteed Standards and Automatic Compensation for Delayed and Erroneous Switches

Presentation to Independent Suppliers Forum

James Crump 7/12/18







Erroneous Switches

- Approximately 0.96% of domestic switches were erroneous in 2016
 - Equivalent to 89,000 erroneous switches based on 2017 data

Timing of final bill

- We understand that 8% of final bills are issued more than 6 weeks after switching
- (Ofgem's 2017 monitoring data from 17 different suppliers)

Delayed Switches

Approximately 693,000 switches (7%) were delayed beyond 21 days for invalid reasons in 2017

Refund of credit balances

• Evidence from our RfI suggests that c.145,000 customers would have been eligible for a payment under the proposed standard in 2017.

According to our 2018 customer engagement survey, 47% of customers felt that switching was a hassle, and 42% of customers were worried that something would go wrong with their switch



- We published an <u>open letter</u> on 6 December 2017, which contained two proposals:
 - 1. Automatic Switching Compensation (most likely via Guaranteed Standards)
 - 2. Publishing supplier switching performance (most likely by analysing and publishing switching data provided by Electralink and Xoserve)
- In June we published our consultation and our initial Approach to Impact Assessment document, in which we identified ~£70m of consumer detriment in 2017 as a result of errroneous and delayed switches and outlining 6 new Guaranteed Standards intended to remedy this detriment.
- We published our policy decision to introduce new Guaranteed Standards, and a Statutory Instrument to implement them, in November 2018.



		Guaranteed Standard	Cost incurred by	£
	В	To agree whether a switch is valid or erroneous within 20 working days of identification of the possible erroneous switch	'New' supplier	£30
			'Old' supplier	£30
Stage 1	D	To send the Erroneous Transfer Customer Charter "20 working day letter" to an erroneously transferred consumer	Contacted supplier	£30
Š	A1	To return an erroneously switched customer within 21 working days of identification of an erroneous switch	'Old' supplier	£30
	F	To refund credit balances within two weeks of sending the final bill	Losing supplier	£30

- These standards cover the full life cycle of resolution of an erroneous switch (identification, customer notification, and rectification).
- Guaranteed Standard F also provides for compensation if customers' credit balances are not refunded in a timely fashion.
- These standards are all tied to clearly defined events (in the ETCC or issuance of a final bill) and responsibility between suppliers is clearly defined.



- We have listened to concerns from independent suppliers that some Guaranteed Standards risked penalising suppliers for poor behaviour by other suppliers.
- This risk occurred where the proposed Standards where responsibility for detriment was not always clear-cut were not targeted directly at the cause of detriment. This was particularly acute concerning Standards relating to:
 - Delayed switches;
 - Responsibility for (as opposed to resolution of) erroneous switches; and
 - Issuance of final bills.

 Lack of effective targeting at sources of would reduce supplier incentives to improve performance and risk distortion of the retail energy market.



- To mitigate these risks, we propose to undertake further analysis of industry flow data to ensure that some Guaranteed Standards are targeted at those suppliers who are at fault for customer detriment.
- We expect to implement the Guaranteed Standards in the table below, but triggers for compensation, and the distribution of payments, are yet to be decided.
- We estimate that this work will take at least six months to research and deliver, and we will issue new standards with the best data available in summer 2019.

	Guaranteed Standard to be implemented in summer 2019						
		Α	To ensure a switch is completed within 21 calendar days from the date the consumer enters into contract with gaining supplier, unless there are valid reasons for delay to switch				
	Stage 2	С	To ensure a consumer is not erroneously transferred				
	•	E	To issue final bills within six weeks of a switch				

We want to work with all suppliers (large and small) to make sure that these Guaranteed Standards are as well targeted at detriment as possible.



1	Publish Decision and Statutory Instrument creating Guaranteed Standards B, D and F relating to Erroneous Transfers (and credit refunds) immediately, Guaranteed Standard A1 requiring return of erroneously switched customers within 21 days.	23 November 2018
2	Undertake further analysis of industry flow data to ensure that Guaranteed Standards are targeted at those suppliers who are at fault for customer detriment.	Starts December 2018, until mid- 2019
3	Initial Statutory Instrument is made (subject to statutory consultation). Two-month supplier implementation period for Guaranteed Standards A1, B, D and F begins.	January 2019
4	Guaranteed Standards A1, B, D and F come into effect. Compensation payments where suppliers are in breach of these standards.	April 2019
5	Publication of further Statutory Instrument implementing better targeted Guaranteed Standards covering delayed switches, final bills and responsibility for Erroneous Switches.	Summer 2019
6	Expected implementation of second tranche of Guaranteed Standards, after Statutory Consultation	Autumn 2019



- Read our decision paper and Statutory Instrument, and respond to the Statutory Consultation
- 2. Prepare to implement the first tranche of Guaranteed Standards in Spring 2019 (subject to statutory consultation)
- 3. Engage with our work to make sure that the second tranche of Guaranteed Standards especially if you have data which could help us identify why erroneous switches and delays to switches and final bills happen





Coffee Break 14:30 - 14:45



Our cross-departmental project team

















The Alan Turing Institute



Midata in energy will provide customers a **secure** way to **quickly** and **easily** give **accredited** third parties access to their energy data; encouraging consumer engagement, and driving market innovation and competition.

The midata framework encompasses a number of elements, including:

- 1. an open data standard, to create a common language around data fields, integration mechanisms, security, and customer experience;
- 2. an accreditation framework, to ensure that data is only shared with trusted and appropriate third parties; and
- 3. **supporting operational arrangements** for monitoring and compliance, and to allow for the standard to evolve (for example, adding new data fields).

Use cases – now and future



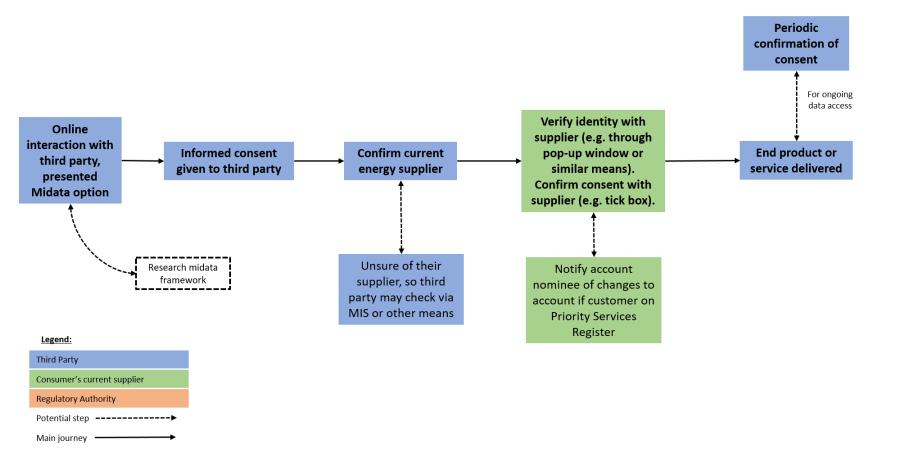
The **primary use case** for the initial iteration of the midata standard is **facilitating faster**, **easier and more effective tariff comparison**. For example, if a consumer were to a visit a Price Comparison Website (PCW), they could choose to use midata to import data on their consumption and current tariff, saving time and the hassle of finding an old bill etc.

The **secondary use case** for midata is to **support innovation in the market** where possible, such as new services helping consumers to optimise their energy usage.

The midata framework will include **industry-led governance mechanism**. This will ensure **ongoing review and evolution** of the standard, so that the benefits of other use cases and sharing additional data sets are realised.

How will it work for consumers?





Data fields for inclusion



 •••				
LITA	ratio	n of s	TANA	ara

Postcode

Current provider*

Current tariff*

Current payment method*

MPAN

MPRN

Annual usage*

Start date of contract with current supplier*

Payload creation date

Last updated date*

Estimated annual consumption*

Contract end date*

Under consideration

WHD status

Meter type*

Economy 7/10 consumption

Standing charge*

Unit charge*

Discounts*

Exit fee*

Bundle flag

Granular consumption data*

Historic consumption data*

^{*} for gas and/or electricity

Key design considerations



Customer interactions

- Minimise barriers for consumers and ensure a positive customer experience via user experience guidelines.
- Consumers will need to give explicit, informed consent (as per GDPR), although the mechanism will not be dictated. This will begin in the third party environment, but the supplier will be able to confirm post-verification.
- Verification midata <u>will</u> detail how third parties verify themselves and their accreditation status to an energy supplier, but <u>will not</u> detail how customers verify themselves to a supplier or third party.
- There needs to be an offline access route for customers, however all third parties will need online access.

Find more details in our design strawman: http://glsr.it/f59b1479

Key design considerations



Technical specifications

- Standards Design Authority (SDA) to confirm and detail
- Midata will detail API specifications, to ensure consistency and clarity on interactions between third parties and suppliers
- Recommended use of access tokens, allowing multiple requests, setting validity period based on consent, using best practice digital approaches (e.g. OAuth 2.0)
- Payload response time will be specified and should in the realm of several seconds for fast digital responses

Find more details in our design strawman: http://glsr.it/f59b1479

Key design considerations



Operation of standard

- In early stages of development
- Third parties will need to be accredited Industry Delivery Group (IDG) is responsible for developing the accreditation framework
- Ofgem will be considering monitoring and compliance what is needed to ensure adherence to standard e. g data quality?
- Ongoing governance that can be flexible and responsive similar to existing codes. We're considering how this can align with other data access initiatives and codes.

Find more details in our design strawman: http://glsr.it/f59b1479

Our approach



1. Cross-government cooperation

We are a cross-government team, which ensures that we are joined up with wider government initiatives and take advantage of the expertise of our colleagues. We are working closely with other energy data projects at Ofgem and BEIS.

2. Open and transparent

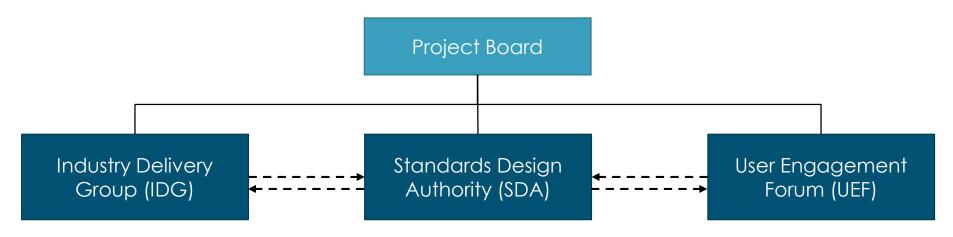
The midata standard will be developed in a transparent manner. We will have a consultative and collaborative drafting process, which is in line with the Open Data Institute's (ODI) Guidelines for developing open standards and the principles of open policy making. We will share our thinking early and often.

3. Lean and iterative

Content within the standards documentation will be as lean as is practicable, particularly for the first iteration. This will be mean a balance between detailed specifications and principles-led guidelines, to ensure that there is sufficient standardisation without being overly prescriptive or stifling.

Delivery structure





Responsible for delivering the midata accreditation framework with which third parties must comply to access midata, and for defining industry's requirements for the ongoing support and maintenance of the midata standard.

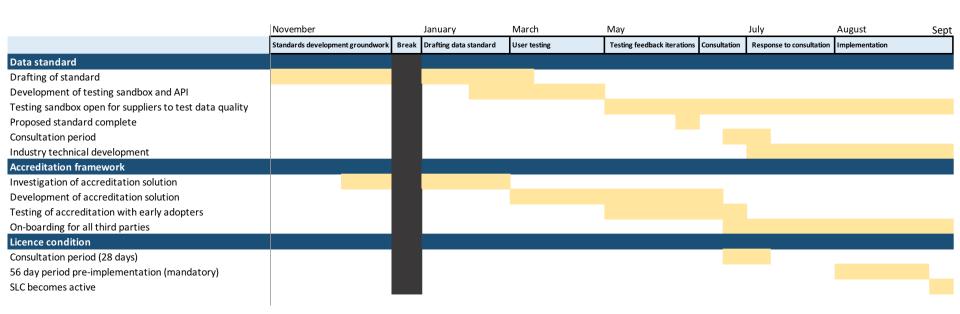
Responsible for the drafting of the initial standard and for ensuring that the standard aligns with relevant policies, standards and wider industry processes with which the standard interfaces.

Responsible for nontechnical review of the outputs from the SDA and IDG, to ensure outputs are in line with consumer requirements.

Timeline



We released the strawman document at the end of October, which marked a key milestone and transition into the standards development stage.



Implementation



- Midata will be implemented via an updated to standard licence conditions (SLC), applying to all licensed domestic energy suppliers, irrespective of size
- We are planning for the first iteration of midata and the SLC change to go live next Autumn
- The standard will be robustly enforced, with approriate responses to non-compliance
- We would like to encourage further and wider industry participation in the project to influence the development and prepare for introduction
- We are keen to understand how we can best assist independent suppliers through this process, particularly implementation

How can I get involved?





Working groups:

- User Engagement Forum glsr.it/miuef
- Industry Development Group glsr.it/miidg
- Standards Design Authority glsr.it/misda



Design strawman:

https://www.ofgem.gov.uk/publications-andupdates/enabling-customer-data-energy-market



Contact:

consumerdata@ofgem.gov.uk





Future Energy Retail Market Review

Andrew Thomsen and Harriet Reece 7/12/18



Rationale for joint review

Review scope and linkages

Activity

Next steps

Since the last Independent Suppliers Forum in May...

Independent suppliers were updated on Ofgem's call for evidence into future supply market arrangements and told us about their experiences innovating in the market.

We indicated we would **consider short- term actions** to protect consumers and
unlock innovation as well as **considering more fundamental reforms.**

Independent suppliers told us that:

- Regulatory burdens should be less for smaller suppliers, as currently innovation tends to be deprioritised in favour of compliance
- The Retail Energy Code presents an opportunity to rectify problems with codes and facilitate innovation
- There should be a consistent policy direction set by the regulator and government in order to enable innovation in the retail market.

Since then ...

A joint review into the future of the energy retail market has been kicked off by the Secretary of State on 15 November.

Some of the fundamental changes we will be exploring may require legislation. Having a joined-up approach allows for a unified, consistent vision and a single point of contact for stakeholders.

Meanwhile...

- Joint Ofgem/BEIS Midata project was launched in July.
- Retail Energy Code is progressing, with a target implementation date for the full code of 2021.
- "Discovery sprint" undertaken with innovators to understand blockers – will be incorporating lessons into longer term work.

- The current energy retail market arrangements have been in place since the market was fully opened to competition 20 years ago.
- At this time, the energy system, technology, and consumer behaviour were all significantly different to what they are today.
- We are setting out to ensure the design of the energy retail market is fit for the future and puts consumers first.
- The review will mainly focus on the following areas:



This joint review is looking to address retail market issues that hold back consumer benefits

Our initial analysis and evidence gathering reveals four major issues that will continue to affect consumers unless the retail market is changed:

- Novel and specialist propositions will be blocked from either launch or profitability
- Flexibility & demand response will be hampered
- Customers may continue to be at risk of exploitation in a two-tier market
- Gaps in consumer protection could grow and new risks may materialise

1A

Novel and specialist propositions will be blocked from either launch or profitability

Missed opportunity of obtaining financial savings and choice from innovation



Lost carbon reduction and energy efficiency improvement from business propositions providing this



Loss of competitive pressure on incumbents, leading to potential long-term impacts on productivity



(1A

Novel and specialist propositions will be blocked from either launch or profitability

1B

Flexibility & demand response will be hampered

Cost of the energy transition rises as system reenforcement and balancing costs increase



Pace of the energy transition falls as non-renewables used for peak loads, increasing emissions



Industrial Strategy target for Clean Growth becomes more difficult



(2A)

Customers may continue to be at risk of exploitation in a two-tier market

Lack of competition means incumbents could cement their position using their high-profit customers



People and businesses who do not switch can pay more. People in vulnerable circumstances can often pay most ("loyalty penalty")



New types of detriment could arise



(2A)

Customers may continue to be at risk of exploitation in a two-tier market

2В

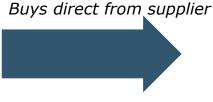
Gaps in consumer protection could grow and new risks may materialise

There can be an uneven playing field between suppliers and other businesses – suppliers held accountable for actions of third-party representatives



The licences protect consumers when they buy energy directly from suppliers, but not intermediaries

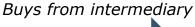
















Rationale for joint review

Review scope and linkages

Activity

Next steps

The scope of our work is very broad...

Both Electricity and Gas markets will be subject to reform proposals (although the reforms to these markets will differ in areas)

Reforms will relate to domestic and nondomestic segments of the market

Levers for giving effect to reforms may include (but are not be limited to) the licences, codes and related legal frameworks

Potential implementation approaches for our reforms will be considered













Given the evidence we currently have on market problems, and the scope of our work, these are some the reform areas we will be exploring

A future retail market could...

(1)

Ease market entry and allow for greater business specialisation



Consumers able to choose from a variety of products and services



Suppliers no longer automatically responsible for the whole range of functions currently required of them and could specialise in any given function



Suppliers no longer obligated to supply everyone, allowing them to tailor products or services for a unique need or customer type



A regulatory framework that is simplified so businesses could function without being compliance specialists Given the evidence we currently have on market problems, and the scope of our work, these are some the reform areas we will be exploring

A future retail market could...

Ensure all types of businesses subject to consistent protection and the vulnerable are always protected



Consumers receive consistent protection and quality of service regardless of whether they buy energy directly, via an intermediary, or as part of a bundle with other services

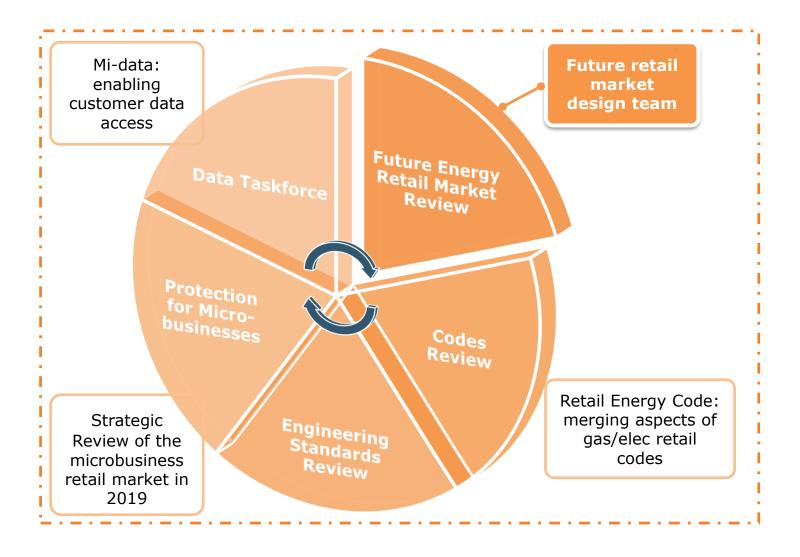


The regulatory burden of businesses will be proportionate to what they sell and who they sell to (e.g. customers in vulnerable circumstances)



The scope for business models based on disproportionately high charges for the disengaged will be radically reduced

A broad scope means there are many linkages with other work that has been announced recently



Rationale for joint review

Review scope and linkages

Activity

Next steps

1. What

consumer

with other

protection issues

parties) settle on

a single meter?

might arise if

Heat.co (along

HYPOTHETICAL SCENARIO – FOR DISCUSSION PURPOSES ONLY

Heat.co allows GRID-CONNECTED CUSTOMERS to buy warmth for their home rather than a kWh of energy. They install a boiler and smart thermostats in homes and an app shows consumers the cost of heating each room. Consumers choose how many hours of warmth to buy and pay a fixed price per hour (which the consumer knows in advance).

Need to enable

grid connected customers

multiple parties to settle against a single energy meter.

Needs to become a licensed supplier.

Heat.co only want to offer heat as a service to

If licensed, Heat.co is subject to Duty to Supply rules to offer terms to all domestic consumers.

2. What consumer protection issues might arise if Heat.co did not have the same obligations as other licensees,

like duty to supply?

Heat.co only want to bill these customers based on how many hours of warmth they buy

Annual consumption information must be displayed in kWh.

Rules around providing a comparison of consumption with the same period the previous year, based on price per kWh and standing charge.

3. What consumer protection issues might arise if Heat.co were allowed to charge for warmth per hour?

Heat.co only want 5-10 year contracts with consumers, to pay bac k for technology installed in homes.

Although licensed suppliers are not explicitly precluded from offering long-term contracts, suppliers are not permitted to block customers switching on any contractual grounds.

Installed sensors might not be compatible across providers, reducing competition.

4. What consumer protection issues might arise if long contracts like Heat.co's became more prominent?

HYPOTHETICAL SCENARIO – FOR DISCUSSION PURPOSES ONLY

Key assumptions

- 1. This business model is compatible with regulation in this hypothetical future world.
- 2. Heat.co wants to operate as a single entity, and not partner with a supplier.
- 3. Multiple parties are able to supply at a single meter point at the premises so another party (not Heat.co) is providing customers with energy for cooking, lighting, etc.
- 4. Heat.co is not operating on a heat network it is supplying gas OR electricity to grid connected customers.

Consumer protection issues to explore

- 1. What are the potential risks to consumers from this business model?
- 2. What are potential distortions to competition that should be avoided (ie an uneven playing field)?
- 3. How could risks of consumer harm or distortions to competition be mitigated?
- 4. If there is one thing you would want this project to ensure when looking at potential consumer protection reforms, what would it be?

Rationale for joint review

Review scope and linkages

Activity

Next steps

January - April 2019

Summer 2019

Stakeholder Engagement Development and evaluation of reform options

Consult on preliminary findings and recommended actions

Next Steps

- Working papers and stakeholder engagement from January 2019 on analytical approach and options development
- Consultation document in Summer 2019 setting out findings and recommendations
- Government will legislate in a subsequent session of this parliament if necessary

Futuresupply@ofgem.gov.uk





Closing Remarks



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.