POLICY AND REGULATION **NEWSLETTER**

Welcome to the second edition of our policy and regulation newsletter.

After a positive response to our first policy and regulation newsletter, we've continued to work closely with our regulatory, economics and government policy experts to bring you the latest energy news.

If there are subjects or topics you'd like us to cover in our next edition, please send your feedback to info@sseenergysolutions.co.uk.

Government announces new scheme to help businesses manage energy costs

The Department for Business, Energy and Industrial Strategy (BEIS) has announced further details of the financial support available to help businesses manage energy costs this winter.

The Energy Bill Relief Scheme (EBRS) has been introduced to support non-domestic energy users, including businesses, charities, schools and hospitals. The scheme will apply for six months from 1 October to 31 March, but will be reviewed after three months to consider if further support for some business segments is required.

The majority of non-domestic energy users will be eligible for the support, with the exception of those on existing fixed-term contracts with a price agreed before 1 April 2022, or customers who use gas to generate power which is supplied back to the grid.

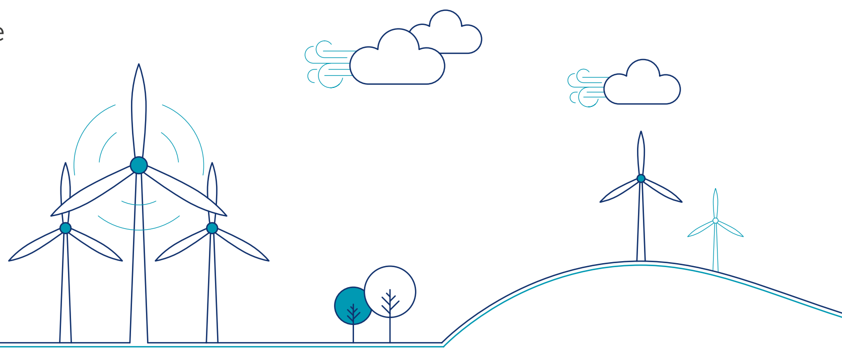
Visit sseenergysolutions.co.uk/EBRS for more information about the new government scheme.

Government ends policy allowances relating to EU energy and certificate imports following the UK's exit from the EU

From 1 April 2023, the Department for Business, Energy and Industrial Strategy (BEIS) has decided to end two policy allowances relating to EU energy and certificate imports following the UK's exit from the EU.

Payments to electricity generators – supported by the Contracts for Difference scheme and the Feed-in Tariffs scheme – are based on a supplier's market share of the electricity market. Suppliers have been able to seek exemption from these costs where they could demonstrate they had supplied renewable electricity that had been generated in the EU.

Following the UK's exit from the EU, the government has decided to remove this exemption, simplifying the operation of the schemes and creating a more level playing field between GB suppliers.



Ofgem is reviewing network charges (DUoS, TNUoS and BSUoS) which could result in significant changes to the way they interact with flexibility markets

DUoS

Ofgem have split the Access and Forward Looking Charging (AFLC) Significant Code Review, which looks at reforming DUoS charges, into two phases.

The first phase will be implemented from April 2023, and includes shallower connection charges, as well as offering customers greater choice when it comes to network access rights. For example, agreeing to be curtailed without compensation in exchange for earlier connections, or cheaper network charges. Smaller customers may be offered a simpler range of access choices. It's hoped that this will encourage customers to be more flexible to accommodate a growing demand on networks from electric vehicles (EV) and electric heating.

The second phase of the review is likely to result in substantial changes to the value of locational DUoS charges and the way they are calculated. The changes could include larger variations in charges across different locations. Some locations could become cheaper, while others could become substantially more expensive. It is too early to say how this will develop and Ofgem should provide more information about this over the next 12 months.

TNUoS

Ofgem is conducting a wider review of TNUoS, aiming to make TNUoS charges more cost reflective and more predictable. It is possible that there could be changes to Triad which could be longer than three half hours and could include a different charge during the summer and winter.

As we transition to net zero, policy makers will consider trade-offs between providing stable and predictable price signals that customers can respond to, versus more dynamic prices that would be more volatile and difficult to predict.

All of these changes will be subject to consultation and debate in the coming weeks, months and likely years to come.

BSUoS

Ofgem recently made a decision on one change to BSUoS and is still considering two further changes, which could be implemented from April 2023.

The confirmed change means that BSUoS will now be collected wholly from final demand from April 2023. This could roughly double the cost of BSUoS paid by customers. However, customers should be neutral to this change because the increase in customer BSUoS should be cancelled out by a correspondingly cheaper electricity unit rate.

A cap on BSUoS for winter 2022/23 is being considered to protect customers from the exceptional market conditions that could otherwise have made BSUoS much more expensive than expected. The additional BSUoS costs above the cap would be deferred to 2023/24.

Ofgem is also considering making BSUoS a fixed charge which is set in advance to provide customers with more predictability and better notice of changes.

Ofgem continues to take steps to strengthen the financial resilience of the sector

In its plan to strengthen financial resilience in the retail market, Ofgem committed to consulting on policy options for protecting customer credit balances and money collected to meet Renewables Obligation payments.

Historically, some suppliers have used cashflow from both sources to fund their business activities, leaving consumers and other market participants exposed to costs which are mutualised in the event of their failure. Ofgem considers this leads to 'excessive risk-taking' and their proposals would introduce a requirement for suppliers to ringfence these balances to ensure they're protected and cannot continue to be used to fund business strategies.

These proposals currently only apply to domestic suppliers. However, it's expected this will benefit the non-domestic market as it will reduce the value of costs to be mutualised if a supplier exits the market.

Ofgem is expected to extend the Renewables Obligation ringfencing proposals to non-domestic suppliers.

We expect to see Ofgem's final proposals published later this year.

Alongside these proposals, Ofgem is also enhancing its monitoring of supplier's finances. In January 2022, the regulator introduced a programme of stress testing to assess whether supplier finances are robust enough to withstand a range of pricing and demand scenarios. Ofgem intend to repeat stress tests on an ongoing basis and will also consider whether further capital adequacy measures are required.

Policy Consultation:
Strengthening Financial Resilience | Ofgem

Ofgem publishes open letter in response to ESO review of the balancing market

The Electricity System Operator, National Grid ESO, plays a key role in the electricity market. Part of their role is to manage system balance between supply and demand to maintain a secure supply of electricity. One of the ways this is achieved is through the Balancing Market (BM) where generators or storage operators are asked to alter their output to balance demand.

Towards the end of 2021, the balancing costs were higher than normal, with over £1 billion spent between September and November 2021, which was double the previous year's spend. In response to this increase, the ESO completed a review to understand the underlying causes. The review concluded that there was no clear evidence that market participants' behaviour was inconsistent with the market rules but recognised that changes to these rules could help to minimise these costs going forward.

Ofgem's own investigative work echoed these findings. However, Ofgem did highlight that they identified some instances of behaviour that may be considered 'immoderate'. In this context, Ofgem is considering whether to introduce short-term reforms. This might include a BM price cap, a limit on generators' ability to amend their schedules with little notice, or an obligation to operate and behave in a manner that delivers in consumers' interests.

Industry programmes continue at pace

Faster switching goes live

The Ofgem Switching Programme went live at 9am on Monday 18 July as anticipated. The programme means customers can switch supplier faster than ever before and some industry processes across gas and electricity are harmonised for the first time.

The changes to a supplier's licence conditions means suppliers are now required to switch a customer within five working days. (Unless the customer requests a different date, the old supplier objects, or the customer chooses to withdraw the request.)

Updates have been made to the Retail Energy Code (REC) to reflect these new industry arrangements.

Smart meters remain at the heart of the transition to net zero

In January 2022, new regulatory framework was introduced which means suppliers must hit individual installation targets. Since then, 54,670 smart and advanced meters were installed in smaller non-domestic sites by large energy suppliers. This means that at the end of Q2 2022, 48% of the non-domestic market had a working smart or AMR meter.

The rollout of smart meters to non-domestic sites within the mandate is expected to bring about impressive savings. According to government's cost benefit analysis, the rollout will lead to an estimated £1.5 billion of energy consumption reductions, driven by consumers engaging with their smart meter data and identifying ways to reduce their energy use.

A new measure is being introduced to facilitate better consumer access to smart meter information. From 1 December 2022, non-domestic suppliers will be required to provide an 'on-request data offer'. This request will enable non-domestic consumers and their nominated third parties to access to their historic smart meter data for free online.

Building on this, from 1 October 2024, non-domestic suppliers will be obligated to implement a 'default data offer'. This means they must provide free, user-accessible energy consumption information to smaller non-domestic customers with smart meters. The information must be based upon the half-hourly/hourly (electricity/gas) data from their smart meter and regular enough to give customers insights into, and help them make informed choices about their energy consumption. Suppliers will also be expected to regularly raise awareness of these data provisions.

Maximising non-domestic smart meter consumer benefits, improving the data offer and enabling innovation | gov.uk

The government is also currently consulting on new proposals that would require energy suppliers to make time-of-use tariff data openly available online in a common format. This would provide a level of interoperability across suppliers – with the right systems and standards in place, Energy Smart Appliances could therefore provide Demand Side Response whilst still meeting consumer requirements, such as charging an EV by a certain time, or heating a premises to a certain temperature.

Delivering a smart and secure electricity system: the interoperability and cyber security of energy smart appliances and remote load control | gov.uk

It's clear that these new measures and proposals will helps us move towards a market where non-domestic customers interact more with their energy use,

Consultation on the working draft of the Market-wide Half Hourly Settlement programme is now underway

Market-wide Half Hourly Settlement (MHHS) is expected to deliver a range of benefits for consumers. Ofgem think it will help suppliers make the most out of 'time of use' products to encourage consumers to be more flexible with their consumption.

The consultation is designed to seek industry feedback on the working draft, with a view to see MHHS implemented as early as possible and preferably no later than October 2025. And although the draft plan will ultimately need to be approved by Ofgem, it's interesting to note that the final milestone (the transition to a new settlement timetable) is scheduled to be delivered no later than 56 months after the physical baseline is delivered (expected to be October 2022). This could mean that completion of the programme does not occur until mid-2027.

However, this is one of several rounds of consultations over the summer, with further rounds moving increasingly into the more detailed design aspects of the programme. Once agreement is reached on key milestones, the programme will begin to move quickly into the system design, build and test phase.

Microbusiness consumer remedies will be introduced from October

Following the conclusion of Ofgem's strategic review of the microbusiness consumer market, additional consumer protections are being introduced.

From 1 October:

- Suppliers must ensure third-party intermediaries provide consumers with pre-contract information about any third-party costs. This includes the fees or commissions paid to third parties that provide information or advice to microbusiness consumers about suppliers' charges or terms and conditions.
- Microbusiness consumers no longer need to provide notice of their intention to switch (except in limited circumstances e.g. variable contracts).

From 1 December:

- Suppliers can only work with third parties who are signed up to a qualifying alternative dispute resolution scheme. This scheme is being administered by the Energy Ombudsman and third parties are encouraged to sign up as early as possible.

More broadly, the government is still considering whether to extend a regulatory framework to third-party intermediaries. So, they'll pay close attention to the outcomes of this supplier-led approach that Ofgem is taking forward.

FOR A BETTER WORLD OF ENERGY

To find out more about how SSE Energy Solutions can help your business, get in touch today.

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