

<b>Title:</b> Draft Measures: Fast and reliable switching and Half-hourly electricity settlement power(s)  <b>IA No:</b> DECC 0199  <b>Lead department or agency:</b> Department of Energy and Climate Change (DECC)  <b>Other departments or agencies:</b> Office of Gas and Electricity Markets (Ofgem)	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 21 January 2016			
	<b>Stage:</b> Final			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Primary legislation			
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<b>Summary: Intervention and Options</b>				<b>RPC:</b> GREEN

Cost of Preferred Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB in 2014 prices)	In scope of One-In, Two-Out?	Measure qualifies as
n/a	n/a	n/a	Yes	Zero- net cost

**What is the problem under consideration? Why is government intervention necessary?**

Competition, consumer choice and consumer engagement is currently constrained by the existing gas and electricity switching and electricity settlement processes. To help overcome these barriers, Ofgem intends to make the switching process faster and more reliable for consumers. It also intends to open up opportunities for time-of-use tariffs by reforming the existing electricity settlement processes. However Ofgem's existing powers to deliver reforms through Significant Code Review (SCR) processes<sup>1</sup> have been prone to delays and coordination failures, hence new primary power(s) are needed to enable Ofgem to deliver these reforms in a more timely, coordinated and cost-effective manner which ensures the best outcome for consumers.

**What are the policy objectives and the intended effects?**

The overarching objective is to reform the switching and electricity settlement processes to enhance competition and increase consumer choice/engagement. The primary policy objective associated with the new power(s) is to establish a new (time and scope limited) regulatory regime which enables Ofgem to facilitate the implementation of the switching and settlement reforms in a timelier, more coordinated and more cost-effective manner which ensures the best outcomes for both consumers and industry, relative to the existing arrangements.

**What policy options have been considered, including any alternatives to regulation?**

Two options were considered:

- Option 1: **'Do Nothing'** and use existing code modification powers, including SCRs, to deliver the changes required. This option was ruled out on the basis that it is unlikely to achieve the policy objectives outlined above.
- Option 2: The **'Preferred Option'** is time and scope limited primary legislation. This is considered the preferred option as it will ensure that both reforms programmes are delivered in a timelier, more coordinated and more cost-effective manner that ensures the best outcomes for both consumers/industry relative to the existing arrangements.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>Review date:</b> 2022					
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro:</b> Yes	<b>&lt; 20:</b> Yes	<b>Small:</b> Yes	<b>Medium:</b> Yes	<b>Large:</b> Yes
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			<b>Traded:</b> n/a	<b>Non-traded:</b> n/a	

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister:  Date: 07/01/2016

<sup>1</sup> The SCR mechanism enables Ofgem to direct licensee(s) to make changes to relevant industry codes to deliver outcomes specified in an SCR Direction made by Ofgem.

**Description:** Introduce time and scope limited primary power(s) to enable Ofgem to facilitate the delivery of faster switching and half-hourly electricity settlement.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: n/a	High: n/a	Best Estimate: n/a

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	n/a	n/a	n/a
High	n/a	n/a	n/a
Best Estimate	n/a	n/a	n/a

### Description and scale of key monetised costs by 'main affected groups'

There are no immediate monetised costs associated with the proposed primary legislation as it will not affect the nature of regulation in the sector until the scope of its' use has been defined by Ofgem following consultation with interested parties. However consideration has been given to the potential costs to business of this time and scope limited change to the licence modification process. Under the central case the current assessment suggests that there should be no additional costs to business as a result of the proposed power(s) relative to the existing regulatory arrangements.

### Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	n/a	n/a	n/a
High	n/a	n/a	n/a
Best Estimate	n/a	n/a	n/a

### Description and scale of key monetised benefits by 'main affected groups'

There are no immediate monetised benefits associated with the proposed primary legislation as it will not affect the nature of regulation in the sector until the scope of its use has been defined by Ofgem. However, consideration has been given to the potential impacts. In the central case the potential resource savings (discounted, 2015 prices) for industry are expected to be around £1.9m and £1.3m for the switching and settlement reform programmes respectively and for Ofgem the resource savings are expected to be around £1m and £0.70m.

### Other key non-monetised benefits by 'main affected groups'

In addition to the monetised savings outlined above, as a result of the enhanced coordination of the process there could potentially be additional resource savings (for both Ofgem and industry) associated with the delivery of both reform programmes due to increased efficiencies relative to the existing arrangements. The proposed power(s) could also bring the delivery date of the reforms forward by 19.5 and 13.5 months for the switching and settlement programmes respectively. This change is expected to be net beneficial to consumers and industry relative to the counterfactual.

### Key assumptions/sensitivities/risks

3.5%

A full list of assumptions underpinning the monetised costs and benefits and risks is detailed in section 5 below. The analysis uses a NPV base year of 2015 (3.5% real discount rate) and all values are expressed in 2015 real prices. Ofgem's use of the new power(s) will be subject to a consultation carried out with interested parties. At this stage, there is still a high level of uncertainty around the incremental impact of the proposed power(s).

## BUSINESS ASSESSMENT (Option 2) (2014 Prices, 2015 NPV base year)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: N/A	Benefits: N/A	Net: N/A	Yes	Zero Net Cost

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## **Evidence Base (for summary sheets)**

### **1. Problem under consideration**

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1. The UK government supports Ofgem's intention to use the opportunities provided by the roll-out of smart metering to ensure better outcomes for consumers by reforming the current gas and electricity switching and electricity settlement processes.
2. Competition, consumer choice and consumer engagement are currently constrained by the existing switching and electricity settlement processes. To help overcome these barriers, Ofgem intends to make the switching process faster and more reliable for consumers and also intends to open up opportunities for time-of-use tariffs and demand-side response by reforming the existing electricity settlement processes.
3. While Ofgem have existing powers to deliver the switching and settlement reforms through the SCR process, past experience shows that this process has been prone to delays and coordination failures. In light of this, Ofgem is considering longer term reforms to the current code modification arrangements, which will also be shaped by the Competition and Markets Authority's (CMA) investigation into the energy market.
4. It is considered that whilst there is a longer term objective to reform the SCR process, there is a need for a short term solution for the purposes of delivering the needed switching and settlement reforms to ensure that the benefits of the reforms (increased customer choice and enhanced competition between suppliers) are achieved sooner rather than later. The new time and scope limited primary power(s) supported by this IA are intended to enable Ofgem to deliver the switching and settlement reforms in a more timely, coordinated and cost-effective manner which ensures the best outcome for both consumers and industry relative to the existing regulatory arrangements.
5. This section outlines the following:
  - a. Background on the proposed switching and settlement reforms;
  - b. Background on Ofgem's existing powers to deliver these reforms, namely the SCR process and the shortcomings of this process; and
  - c. Overview of the proposed primary power(s).

#### **1.1 Background: Switching Reforms**

6. Ofgem's intention to deliver faster and more reliable switching supports its' March 2014 'State of the Market assessment'<sup>2</sup> which found that competition, including the switching process, is not working as well as it could for households and small businesses. Specifically, the 'State of the Market assessment' revealed that 27% of customers who have never switched, saw it as a hassle and the fear of something 'going wrong' during the switching process was off-putting for many. The assessment also found that the way switching currently operates can reduce competition between suppliers by acting as a barrier for new market entrants and those wishing to expand. Ofgem's work on switching reforms also builds on the Retail Market Review (RMR) reforms<sup>3</sup> to make the market simpler, clearer and fairer for consumers and to increase engagement. In summary, Ofgem's intention to deliver faster and more reliable switching is driven by the consideration that if consumers

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<sup>2</sup> Ofgem, 2014, State of the Market Assessment, [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/assessment\\_document\\_published\\_1.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/assessment_document_published_1.pdf)

<sup>3</sup> Ofgem, 2015, The Retail Market Review: background and publications, [web], available at: <https://www.ofgem.gov.uk/simpler-clearer-fairer/retail-market-review-background-and-publications>

are more willing and able to switch energy suppliers, there will be increased competition in the gas and electricity markets.

7. On the 16<sup>th</sup> of June 2014, Ofgem published its consultation document on moving to reliable next-day switching<sup>4</sup>. In the consultation document, Ofgem outlined its concerns regarding the impact of current switching processes on consumers. Specifically, Ofgem noted that the current switching processes depend on out-dated systems which are slow, inefficient and unreliable which together, result in poorer outcomes for consumers<sup>5</sup>.
8. In order to ensure the best outcome for consumers, Ofgem are leading a work programme to implement reliable next-day switching on a centralised registration service (CRS) governed by the Smart Energy Code (SEC) and managed and operated by the Data and Communications Company (DCC). This supports the commitment in Ofgem's Forward Work Programme 2014/15<sup>6</sup> and 2015/16<sup>7</sup> to develop the programme to move to reliable next-day switching.
9. Alongside its policy development on reliable next-day switching, Ofgem has worked with Government and industry to halve switching times to 17 days from previous levels of around five weeks.
10. On 10 February 2015, Ofgem published its decision<sup>8</sup>, following the consultation, to move ahead with proposals to lead a programme to re-engineer switching arrangements in the energy market to move to reliable next-day switching using a new CRS. Next-day switching through smart meters is also a part of the Conservative Government's plan of action to guarantee clean, affordable and secure energy as set out in its manifesto for the 2015 General Election<sup>9</sup>.
11. Thus far the CMA has also supported the move to reliable next-day switching. In their recently published Notice of Possible remedies they note the following:
  - a. 'the switching process is likely to be facilitated further by Ofgem's recent decision to replace the existing network-run gas and electricity switching services with a new centralised switching service, run by the Data and Communications Company, in order to facilitate reliable next-day switching'<sup>10</sup>.

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<sup>4</sup> Ofgem, 2014, Moving to reliable next-day switching (consultation) [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2014/06/fast\\_and\\_reliable\\_switching\\_con\\_docfinal\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/06/fast_and_reliable_switching_con_docfinal_0.pdf)

<sup>5</sup> Ofgem, 2014, Moving to reliable next-day switching (consultation), page 1 [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2014/06/fast\\_and\\_reliable\\_switching\\_con\\_docfinal\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/06/fast_and_reliable_switching_con_docfinal_0.pdf)

<sup>6</sup> Ofgem, 2013, Forward Work Programme 2014-15, [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2013/12/forward\\_work\\_programme\\_2014-15\\_final.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2013/12/forward_work_programme_2014-15_final.pdf)

<sup>7</sup> Ofgem, 2015, Forward Work Programme 2015-16, [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/forward\\_work\\_programme\\_2015-16\\_25march2015\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/forward_work_programme_2015-16_25march2015_0.pdf)

<sup>8</sup> Ofgem, 2015, Moving to reliable next-day switching (decision) [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast\\_and\\_reliable\\_switching\\_decision\\_final.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast_and_reliable_switching_decision_final.pdf)

<sup>9</sup> Conservative Party, 2015, Election Manifesto 2015, page 57 [web], available at: <http://ucrel.lancs.ac.uk/wmatrix/ukmanifestos2015/localpdf/Conservatives.pdf>

<sup>10</sup> CMA, 2015, Energy Market Investigation: notice of possible remedies, page 19 [web], available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/442489/EMI\\_Remedies\\_Notice\\_-\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442489/EMI_Remedies_Notice_-_Final.pdf)

12. As part of its 10 February 2015 decision on moving to reliable next day switching, Ofgem confirmed its intention to use its existing powers to implement the reforms by launching a<sup>11</sup> SCR whilst at the same time noting that:
  - a. 'While we recognise that the SCR process is capable of delivering the required changes, new legislation could further strengthen our ability to drive the programme'.
13. Ofgem is currently still considering and developing the policy options around the design of a new the CRS and how a next-day switching service would work in practice. Although the policy is still at an early stage of development, Ofgem considers that the move to faster and more reliable switching processes is likely to be net beneficial.

## **1.2 Background: Electricity Settlement Reforms**

14. Ofgem intends to use the opportunities provided by smart and advanced meters that can record half-hourly consumption and be remotely read to improve the accuracy and timeliness of the electricity settlement process. This in turn will open up opportunities for time-of-use tariffs and demand-side response. Ofgem's intention to reform the settlement process is driven by the consideration that this will increase consumer engagement and consumer choice, and will also promote more effective competition between suppliers.
15. The settlement process was initially designed to support the introduction of competition in the retail market in the late 1990's. Electricity settlement currently operates on a half-hourly basis, however half-hourly capable metering is not currently available in all homes and smaller non-domestic premises. Consequently, at present the majority of consumers are settled 'non-half hourly', whereby estimated consumption profiles are used to allocate energy used to each half hour period.
16. On the 4<sup>th</sup> of April 2014 following a period of scoping, Ofgem published a document<sup>12</sup> which concluded that the move to half-hourly settlement (based on actual half-hourly consumption data) is likely to be beneficial to consumers. Settling consumers against their actual half-hourly data would fully expose suppliers to the difference in cost across the day of purchasing and transporting energy. This improvement in the accuracy of the allocation of energy and network costs would place stronger incentives on suppliers to help consumers move consumption to periods when electricity is cheapest. In addition this reform could also make the settlement process more efficient and reduce the risk of operating in the market. Hence moving to half-hourly settlement could increase customer engagement and also promote more effective competition between suppliers. The document also set out plans for how Ofgem would progress the settlement project.
17. The CMA has also indicated that settlement reforms are necessary. It noted in its recently published provisional findings that:
  - a. 'The current profiling system of settlement distorts suppliers incentives (compared with a system of settlement based on customers' actual half hourly consumption). The use of profiling to estimate each supplier's demand fails to charge suppliers for the true cost of their customers' consumption – costs that can differ considerably at different times of the day. This means that suppliers are not incentivised to encourage their customers to change their consumption patterns, as the supplier will be charged in accordance with the customer's

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<sup>11</sup> The SCR mechanism enables Ofgem to direct licensee(s) to make changes to relevant industry codes to deliver outcomes specified in an SCR Direction made by Ofgem.

Under this process, the industry is responsible for delivering policy conclusions through the code modification process

<sup>12</sup> Ofgem, 2014, Electricity settlement reform – moving to half-hourly settlement [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2014/04/electricity\\_settlement\\_launch\\_statement\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/04/electricity_settlement_launch_statement_0.pdf)

profile. This in turn may distort suppliers' incentives to introduce new products such as time-of-use tariffs<sup>13</sup>

18. On the 28<sup>th</sup> of January 2015, Ofgem published an update on the electricity settlement project<sup>14</sup> which outlined the following:
  - a. Ofgem had approved a modification to the Balancing and Settlement Code (BSC) that requires larger non-domestic consumers to be settled using half-hourly consumption data.
  - b. A subsequent modification to the BSC confirmed that non-domestic consumers will start to migrate to the new arrangements from 1 November 2015, with migration complete by 1 April 2017.
  - c. Ofgem had launched a project to explore how this could be achieved for domestic and smaller non-domestic consumers.
  - d. Ofgem's intention to publish a strategy to promote energy system flexibility in 2015. The next steps for settlement reform will be considered in the context of this strategy.
19. The settlement reforms are still at an early stage of policy development in comparison to the switching reforms. Ofgem is currently still considering and developing the policy options around how best to move to settlement using half-hourly consumption data for domestic consumers and smaller non-domestic consumers. As with the switching reforms, Ofgem could use its existing powers to launch a SCR to deliver the settlement reforms, however the new power(s) is intended to further strengthen Ofgem's ability to drive settlement reforms forward more efficiently.
20. Although the policy is still at an early stage of development, Ofgem considers that the move to half-hourly settlement is likely to be net beneficial.

### **1.3 Background: Current SCR powers, code modification appeals process and licence modification 'standstill period'**

#### *a. SCR powers and code modification appeals process*

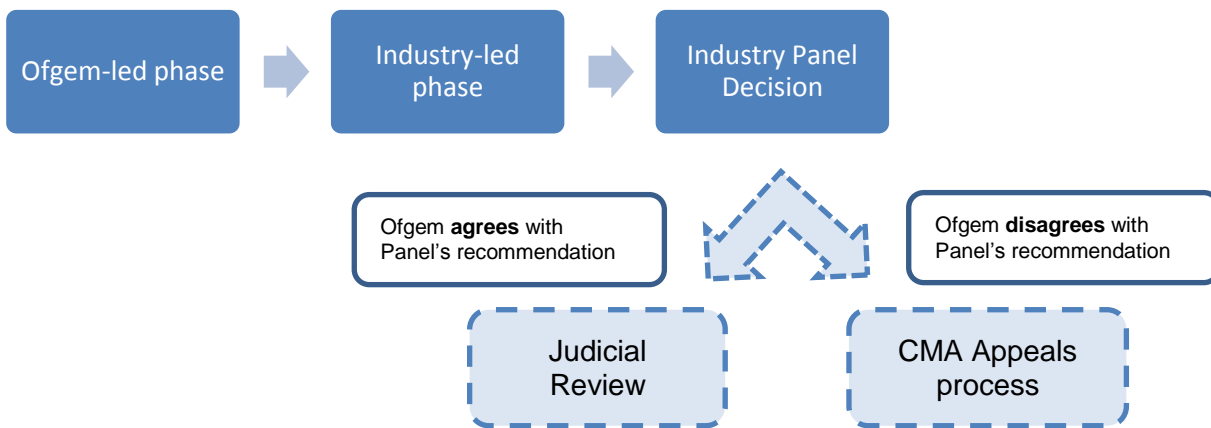
21. The SCR mechanism enables Ofgem to direct licensee(s) to make changes to relevant industry codes to deliver outcomes specified in an SCR Direction made by Ofgem.
22. The process, broadly speaking, is made up of two phases:
  - a. The Ofgem-led phase; and
  - b. The Industry-led phase.
23. In the Ofgem-led phase, there are a series of consultations with industry which could culminate with Ofgem issuing an SCR direction to the relevant licensee to raise a code modification(s).
24. In the industry-led phase, the licensee raises a modification proposal in accordance with the SCR direction which is then developed and assessed by industry through work groups and consultations. The panel of industry representatives then makes a recommendation on whether Ofgem should approve or reject the modification proposal or any alternatives. Ofgem then makes their decision on the proposed modification(s) following the industry-led phase and panel recommendation.

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<sup>13</sup> CMA, 2015, Energy Market Investigation: summary of provisional findings report, page 36 [web], available at: [https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI\\_PFs\\_Summary.pdf](https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI_PFs_Summary.pdf)

<sup>14</sup> Ofgem, 2015, Update on electricity settlement project [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/settlement\\_final\\_doc.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/settlement_final_doc.pdf)

**Figure 1: High-level SCR process and appeals process**



25. Figure 1 illustrates the high level SCR process outlined in the preceding paragraphs as well as the SCR's current appeals process.

26. Currently, Ofgem's decision following the panel recommendation may be appealed by way of Judicial Review (JR) or by statutory right of appeal to the CMA (see figure 1). There is a right to appeal to the CMA where Ofgem's decision is not to consent to the recommendation of the industry panel. Judicial Review (JR) may be available where Ofgem consents to the panel's recommendation. Generally speaking, the CMA appeal route may raise substantive grounds of challenge to the decision, whilst the grounds for judicial review are broadly procedural.

27. There have only been three SCR processes in the past, but all have been prone to delay and have also lacked the needed coordination across changes to industry codes. Ofgem has already sought views on how to reform the SCR process in general<sup>15</sup> and the CMA has also noted the need for reforms to the process<sup>16</sup>, however these two strands of proposed reforms are still at an early stage of development. Consequently, it is considered that a short term solution for the regulatory failure in relation to code modifications (which has resulted in delays and coordination failures in the past) is needed for the proposed switching and settlement reforms to ensure that the expected benefits of the schemes are delivered sooner rather than later. Further information on the rationale for the proposed power(s) is provided in Section 2.

*b. Licence modification 'standstill period'*

28. As well as modifying industry codes, part of the switching and settlement reforms will involve modifying the licences of industry participants. The current, minimum, process for modifying licences is as follows.

- Statutory consultation, for 28 days, on proposed licence changes
- Decision notice published
- 56 days after the decision notice is published, the licence change comes into effect.

29. In practice, it is usual to have one or more policy consultations before the statutory consultation is eventually published.

<sup>15</sup> Ofgem, 2015, Open letter on Further Review of Industry Code Governance [web], available at: <https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/cgr-open-letter.pdf>

<sup>16</sup> CMA, 2015, Energy Market Investigation: notice of possible remedies, page 42-43 [web], available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/442489/EMI\\_Remedies\\_Notice\\_-\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442489/EMI_Remedies_Notice_-_Final.pdf)



30. The 56-day 'standstill' period before the licence changes is implemented reflects the time in which the CMA may grant permission for an appeal to be raised (up to 40 working days). There is not an equivalent statutory or licence-based standstill period in the code modification process.

#### **1.4 Proposed Primary Power(s)**

31. This Impact Assessment (IA) accompanies time and scope limited draft primary legislation which will enable Ofgem to implement switching and settlement reforms in a timelier and more cost-effective manner relative to existing arrangements so as to ensure the best outcomes for consumers. The proposed power(s) will be time limited to five years from commencement and scope limited to the switching and settlement reforms programmes only. At this stage, the proposed power(s) will be put forward for Pre-Legislative Scrutiny. An updated IA will accompany the introduction into Parliament of any final primary legislation.
32. The proposed primary power(s) will enable industry codes to be modified directly by Ofgem rather than industry so as to facilitate expeditious and coordinated changes to industry codes. This is because it is considered that the current SCR process will not deliver the policy objectives (enhanced competition and increased consumer choice/engagement) of the actual switching and settlement reforms in a timely and cost effective manner that ensures the best outcomes to consumers.
33. The proposed power(s) will also introduce a new appeals process. Although the CMA appeals route is currently available under the SCR process in circumstances where Ofgem's decision is not to consent to the recommendation of the industry panel, the new process (enabled by the proposed powers) will utilise the JR appeals process only. It is considered that the CMA appeals route will not be needed to support the proposed power(s) because Industry will be able to provide sufficient scrutiny of Ofgem's policy-making and decision-making throughout the programme of reforms through stakeholder consultation and workgroups.
34. Finally, the proposed power(s) will introduce the ability for Ofgem to reduce the 56-day period between the notice of a licence modification being published and the modification coming into effect. This is intended to facilitate the timely implementation of changes to licences in the time-critical periods immediately before, and after, go live of the reforms. Further information on the rationale for the proposed power(s) is provided in Section 2.
35. In summary, although the proposed switching and settlement reforms are at an early stage of development, Ofgem considers that the proposed switching and settlement reforms are likely to be net beneficial as they will increase consumer engagement and consumer choice as well as enhance competition between suppliers. Whilst Ofgem have existing powers to deliver the switching and settlement reforms through the SCR process, past experience shows that this process has been prone to delays and coordination failures. As such, whilst there is a longer term objective to reform the current SCR process, it is considered that the proposed time and scope limited power(s) are needed to ensure that the benefits from the proposed reforms are successfully delivered sooner rather than later.

## **2. Rationale for Intervention**

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36. The primary focus of this IA is to assess the potential direct impact of the proposed draft primary power(s) that are being put forward for Pre-legislative scrutiny which are intended to enable Ofgem to deliver the needed switching and settlement reforms in a more timely, coordinated and cost-effective manner. Hence the IA will not focus on assessing the actual direct impact of the switching and settlement reforms as these are still at an early stage of development and will be separately assessed in subsequent IA(s) produced by Ofgem.
37. The UK Government supports the intention to promote a more dynamic and efficient energy market. It is considered that competition, consumer choice and consumer engagement are currently constrained by the existing switching and electricity settlement processes. Ofgem's intended reforms will help overcome these barriers:
- a. By making the switching process faster and more reliable for consumers; and
  - b. By opening up opportunities for time-of-use tariffs and demand-side response by reforming the existing settlement processes.
38. Whilst Ofgem have existing powers to deliver the switching and settlement reforms through the SCR process, past experience shows that this process has been prone to delays and coordination failures.
39. Hence, the rationale for the time and scope limited proposed power(s) is driven by Ofgem's ambition to address the overarching barriers to competition and consumer engagement/choice associated with the current switching and settlement processes. The new power(s) will enable the expedited delivery of the reforms in a more coordinated and cost-effective manner by addressing the regulatory failure associated with the existing SCR process.
40. The subsequent sections will provide further detail on why the new process (enabled by the primary power(s)) is needed to ensure the outcomes outlined above are achieved.

### **2.1 Rationale for the proposed power(s) to amend the SCR process**

41. As outlined in the preceding section, the overarching policy objective is to reform the switching and settlement processes to ensure that the barriers identified (consumer choice, consumer engagement and competition are currently constrained) are overcome.
42. The primary policy objective of the new power(s) is to establish a new (time and scope limited) regulatory regime which enables Ofgem to facilitate the implementation of the switching and settlement reforms in a timelier, more coordinated and more cost-effective manner which ensures the best outcomes for consumers and industry relative to the existing arrangements.
43. The primary objective outlined above, supports the UK Government's plan of action to guarantee clean, affordable and secure energy, as the new power(s) will:
- a. Ensure that the key policy objective of settlement and switching reforms is achieved (promoting a more dynamic and efficient energy market); and
  - b. Minimise the resource costs and risk of delay in the pre-implementation phase.
44. Hence, the proposed power(s) is intended to ensure the best outcome for both consumers and industry as the power(s) is expected to promote a more efficient reform programme for both faster and more reliable switching and half-hourly settlement.

45. The actual implementation of switching and settlement reforms will require changes to multiple industry codes with consequent, significant changes expected to parties' IT systems and processes. Ofgem have indicated that in the absence of new power(s) they would use existing SCR powers to deliver settlement and switching reforms, as the most appropriate way of delivering the reforms using the current regulatory regime.<sup>17</sup>

46. However, the use of existing SCR powers raises risks that the policy objectives identified in the preceding paragraphs will not be achieved. Under the existing powers, the industry is responsible for delivering policy conclusions through the code modification process. However in the CMA's summary of provisional findings report, the CMA states its concerns around the length of time that code modifications have generally taken in the past and concern around the fact that the process has not begun for the settlement reforms in particular<sup>18</sup>.

47. It is considered that there are two reasons why industry is unlikely to lead this process effectively for both switching and settlement programmes:

- a. Parties that oppose reform can derail or delay the modification process; and
- b. There is a need for leadership and coordination across industry codes, but there is no industry party able to play this role for complex changes, for example changes that cut across multiple codes.

a. Parties that oppose reform can derail or delay the modification process

48. Whilst Ofgem has confirmed its intention to launch the SCR process for the switching reforms, Ofgem has also noted that in the meantime industry may not currently have the appropriate incentives to raise the modifications that will deliver the necessary settlement/switching reforms under the existing SCR powers, which in turn raises the following risks:

- That the policy objectives for switching/settlement reforms will not be achieved; and
- That implementation is delayed.

49. Some industry parties may not be incentivised to deliver the necessary reforms in a timely and cost-effective way that maximises the benefits to consumers because the reforms may impose additional costs on industry players and could also threaten the benefits that some suppliers are currently able to accrue. This reasoning is outlined below::

- I. Currently, the evidence suggests that weak customer response gives suppliers a position of unilateral market power concerning their inactive customer base in which they are able to exploit these customers through their pricing policies. Hence, some suppliers may oppose the reforms because one of the key objectives of the reforms is to promote

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<sup>17</sup> Unlike the related faster switching powers, Ofgem have not yet initiated an SCR process for settlement reform.

<sup>18</sup> CMA, 2015, Energy Market Investigation: summary of provisional findings report, page 36 [web], available at: [https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI\\_PFs\\_Summary.pdf](https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI_PFs_Summary.pdf)

competition (by decreasing barriers to entry and/or by decreasing constraints on the way suppliers compete and/or by increasing customer engagement), which could in turn exert downwards pressure on prices. This would benefit consumers through lower bills, though this would also represent a transfer from suppliers to consumers.

- II. In a competitive market, half-hourly settlement is likely to create an incentive for suppliers to offer tariffs to consumers which incentivise them to reduce their demand for energy at more expensive times, e.g. in winter at times of peak demand. This could reduce consumer bills directly, and also reduce the pressure on the system at times of peak demand. However these are not necessarily benefits which will accrue to current suppliers so they may not have an incentive to take them into account as part of an SCR process.
- III. Suppliers may also oppose the reforms because of the additional up-front implementation costs. Implementation of the reforms will require changes to multiple industry codes with consequent, significant changes to parties' IT systems and processes. Crucially, while suppliers will need to incur the additional implementation costs, they may not however realise all of the benefits from the reforms as outlined in the previous section.

50. Suppliers' opposition can be manifested by parties raising alternative modifications which seek to reopen issues that may have already been considered in making any SCR conclusions/direction which would require additional resources to assess. The industry-led process is also reliant on suppliers providing information that would allow a robust impact assessment to be carried out and previous experience suggests that suppliers' opposition to a proposal could be reflected in the quality or timeliness of the information they provide to support impact assessments.

#### *b. The need for leadership and coordination*

51. A coordination failure exists under the current SCR process as currently there is no incentive for an industry party to take on the necessary leadership role to coordinate changes across multiple industry codes. While the benefits of a cross-industry reform may accrue to consumers, or to industry as a whole, it is unlikely that any one party would be able to capture enough private benefits to incentivise it to lead the reform process. The proposed new power(s) will enable Ofgem to make multiple, coordinated changes to industry codes for the purpose of the reforms. This will enable Ofgem to lead the delivery of the programme whilst simultaneously ensuring that the programmes' objectives are met through effective coordination.

52. While Ofgem takes decisions on whether to approve a modification at the end of the process, it is very limited in the role it can play in coordinating modifications during their development. While Ofgem has some scope under some of the codes to influence timings, it does not control the modification process or timetable and neither can it make or propose changes to modifications during their development.

53. There is a currently a need to coordinate changes:

- Across codes;
- Across codes and licences;
- Between the changes being agreed and go-live as new issues are discovered; and
- After go-live to resolve issues in live operation.

54. Ofgem anticipate that once the initial tranche of modifications for new switching and settlement arrangements have been made, there will be the need to consider further changes at short notice through the implementation phase and after go-live. Ofgem would not be able to use its SCR powers here given the notice periods and published process. It would be reliant on the industry-led code modification process. As above, while changes can be raised by industry parties with an urgent status, Ofgem is not able to raise and coordinate any required changes which could have impacts for consumer and industry experience in operating the new arrangements.

## **2.2 Rationale for the proposed code modification appeals process**

55. Under the Energy Act 2004, market participants who wish to challenge Ofgem's decisions on proposed industry code changes may appeal to the CMA.<sup>19</sup> There are exclusions from this right of appeal where Ofgem are either:

- In agreement with the majority recommendation of the code's governing panel
- Consider that the delay caused by holding an appeal is likely to have a material adverse effect on the availability of electricity or gas for meeting the reasonable demands of consumers in Great Britain.

56. Under the proposed new power(s), this CMA appeal route for code changes would not be available. However parties would be able to challenge decisions made under the legislation through Judicial Review (JR).

57. It is considered that JR will be appropriate as Ofgem intends to work closely with industry parties in developing the code modifications to ensure a sufficient level of input from industry experts in developing the new arrangements for faster switching and electricity settlement. By working closely with industry, with appropriate consultation as required by the proposed legislation, Ofgem intend to ensure adequate scrutiny and expert input in its development of the new arrangements. This will help secure industry support, at the end of this phase, for the code and licence modifications that will be made. The new power(s) is expected to reduce the scope of influence for industry to appeal the policy at the end of the Enactment phase, but the power(s) will also incentivise industry to work closely with Ofgem during the pre-implementation phases to ensure effective policy development. The risk of sub-optimal policy development as a result of inadequate scrutiny and/or expert input, due to the loss of the CMA appeal route, is therefore considered to be limited.

58. While the risk of an appeal is low, for the reasons described above, the power for Ofgem to make code changes directly removes the 'safeguard' of the code panel vote. This safeguard prevents parties from appealing code modification decisions to the CMA when the decision represents the consensus of industry, as reflected in the decision of the relevant code panel. Without the code panel recommendation, it is possible that one party who opposes the reforms could launch a spurious appeal to the CMA and delay the programme. In addition, the CMA appeal enables parties to challenge one element of a proposal, rather than the proposal in its entirety. This could mean that there is more scope for a party opposed to the reforms to find an aspect of the policy in relation to which the CMA would accept an appeal, regardless of the robustness of the overall package of reforms.

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<sup>19</sup>Ofgem, 2015, Industry Codes work, [web], available at:  
<https://www.ofgem.gov.uk/licences-codes-and-standards/codes/industry-codes-work>

59. In the circumstance of an appeal being raised, Ofgem estimates that the impact on the programme could be as follows:

- Within 15 working days of the code modification decision, a party can launch an application for permission to bring an appeal to the CMA.
- At this point, the programme would have to pause to consider the impact of the appeal on other areas of work. It is possible that related policy or design work would have to be halted while the appeal is underway. At a minimum, a risk assessment would need to be conducted of the options for continuing to develop aspects of the programme while the appeal is being considered. There is a chance that the entire programme could be halted
- The CMA can suspend the particular decision being appealed, prior to the outcome of the decision
- The CMA is expected to reach a final decision in approximately three months from the date of the code modification decision. While some work may be able to progress while the appeal is underway, key milestones such as the agreement of design baselines, consultation and decisions will not be able to progress until the appeal is concluded
- This could mean that if the appeal is raised close to a milestone or phase end being reached, this milestone or phase end could be delayed by at least the length of time for the appeal to be considered, and likely to be longer.
- This would delay the progression of the programme and, ultimately, the delivery of the reforms. It would also increase the costs of the programme.

60. The impact outlined above would be similar in the case of a JR<sup>20</sup>. However, an appeal route is required to meet requirements under European legislation, in addition the general principles of good regulation, and we consider that the JR would be sufficient for these purposes.

### **2.3 Rationale for the amended licence modification ‘standstill period’**

61. It is likely that, to deliver the reforms, a number of licence and code modifications would need to be made in parallel. Given the scale of complex changes required, it is expected that, once the main suite of code and licence changes have been made, additional, smaller changes will be needed during the ‘design, build and test’ (pre-implementation) phase, and after go-live (see section 5.1 for more detail on these phases).

62. In some circumstances, Ofgem will need to make urgent modifications to codes and licences, for example, to address an issue that has arisen in testing or after the new arrangements have gone live. The need for a revised time period which is shorter than 56 days could arise from:

- The need to align new code and licence modifications with planned IT systems releases as part of the testing and implementation of the reforms. For example, if a systems release is scheduled for before the 56 day period expiry period, the programme would not be able to take advantage of the scheduled release to implement the urgent changes. This means it would be necessary to wait longer for the next planned release, or plan a new, bespoke systems change, which would add time and cost to the programme
- The risk of not being able to make urgent changes to licences, or combined changes to licences and codes, in the event of an issue being identified that could place the customer, or the integrity of the new arrangements, at risk.

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<sup>20</sup> The timescales for JR appeal are likely to be longer, with a claim form required to be lodged by the applicant as soon as possible, but in any event within three months of the decision that is being appealed.

63. In this situation, it is proposed that Ofgem have the power to reduce, in consultation with industry, the length of time of the standstill period after which a licence change may come into effect. However, it is assumed that unless the circumstances of the programme require it, the 56-day period will be the default period after which licence modifications are effective.
64. The benefits of this change would be to enable rapid action to be taken in response to an issue that presents risks to consumers, or the integrity of the new arrangements. Reducing the 56-day period would allow these risks to be addressed more quickly, and enable better coordination of code and licence changes that are made in tandem.
65. There is currently no alternative means for urgent licence changes to be made. When Ofgem makes a licence change, it can include powers of direction – that is, powers to subsequently direct licensees to do specific things to meet the policy objective of the licence change that has been made. This is a mechanism to deal with uncertainty. However this power of direction is limited and may not be able to cover all the circumstances under which an urgent licence modification might be required. Having a shorter standstill period will enable Ofgem to make changes more quickly to address issues that cannot be tackled through Ofgem’s powers of direction.
66. The requirement for Ofgem to consult with industry on an appropriate alternative standstill period provides a safeguard against licence changes being imposed more quickly than 56 days without justification. It is also a means for parties to make representations to Ofgem on the issue, which Ofgem must take into account.

#### **2.4 Rationale for the time and scope limit of the proposed power(s)**

67. The proposed primary power(s) will only be used for the settlement reform and faster switching programmes. However it should be noted on the 15 May 2015, Ofgem issued an open letter seeking views on the case for a further review of the SCR process in general<sup>21</sup> and stated that:
- *‘In the context of the anticipated scale of change required in the coming years, we continue to have concerns that the arrangements may not be operating in the best interests of consumers. We consider it is timely to review the reforms we have implemented and potentially introduce further reform to the arrangements.’*
68. In the letter, Ofgem noted that each of the previous SCR processes’ timescales had been delayed and hence requested views on the factors that may have driven the delays as well as views on how both Ofgem and Industry stages of the process could be streamlined.
69. The CMA currently also considers that the current arrangements need to be improved. In the CMA’s recently published notice of possible remedies<sup>22</sup>, the CMA outlines its’ proposed potential remedies and invites views on other remedies that may be required to improve the current system of code governance. Hence, though the proposed power(s) will only be used for the switching and settlement reforms, work is currently underway to consider longer-term reforms to the current code governance arrangements.

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<sup>21</sup> Ofgem, 2015, Open letter on Further Review of Industry Code Governance [web], available at: <https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/cgr-open-letter.pdf>

<sup>22</sup> CMA, 2015, Energy Market Investigation: notice of possible remedies, page 42-43 [web], available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/442489/EMI\\_Remedies\\_Notice\\_-\\_Final.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442489/EMI_Remedies_Notice_-_Final.pdf)

70. The proposed power(s) will be time limited to five years from commencement to reduce the regulatory risk for the market and ensure that the power(s) is not in place for longer than is necessary to deliver the objectives being sought.

## **2.5 Summary**

71. In summary, the rationale for the use of the proposed time and scope limited power(s) is to overcome the existing issues with incentives and coordination in the industry-led SCR process by:

- a. Streamlining the pre-implementation phase
- b. Minimising the potential risk of delay associated with the SCR process; and by
- c. Enabling Ofgem to take on the leadership role to ensure that the whole process is coordinated effectively.

72. The proposed power(s) may also enable the expedited implementation of the reforms which will help deliver the consumer and competition benefits outlined in the preceding sections, meaning that any net benefits from the proposed reforms are delivered sooner.

73. The potential impacts of the proposed power(s) are discussed in more detail in Section 4.



### 3. Policy Objectives

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74. The overarching objective is to reform the switching and electricity settlement processes to enhance competition and increase consumer choice/engagement. The primary policy objective associated with the new power(s) is to establish a new (time and scope limited) regulatory regime which enables Ofgem to facilitate the implementation of the switching and settlement reforms in a timelier, more coordinated and more cost-effective manner which ensures the best outcomes for both consumers and industry, relative to the existing arrangements.
75. The primary objective outlined above, supports the UK Government's plan of action to guarantee clean, affordable and secure energy, as the new time-limited power(s) will:
- Ensure that the key policy objective of switching and electricity settlement reforms is achieved (promoting a more dynamic and efficient energy market); and
  - Minimise the resource costs and risk of delay in the pre-implementation phase.
76. Hence, the proposed power(s) is intended ensure the best outcome for both consumers and industry as the power(s) is expected to promote a more efficient reform programme for both faster switching and half-hourly electricity settlement.

## 4. Description of options considered

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77. Two options were considered:

- a. Option 1: A '**Do Nothing**' option was ruled out on the basis that it is unlikely to achieve the policy objectives. Under this approach Ofgem would not have the powers to ensure that switching and settlement reforms are delivered in a timely and cost-effective manner that ensures the best outcomes for consumers (due to risk of derailment or delay).
- b. Option 2 : The '**Preferred Option**' is the introduction of time-limited primary power(s) that will allow Ofgem to use a more streamlined process than an SCR to make changes in a timely way to
  - i. Expedite, simplify and make more reliable arrangements for customers to switch their gas or electricity supplier; and
  - ii. Require suppliers to settle electricity balances with consumers on the basis of half-hourly actual consumption data

78. Option 2 is the preferred option as it ensures that switching and settlement reforms are delivered in a timelier and more cost-effective manner that ensures the best outcomes for both consumers and industry relative to the existing arrangements.

i. Details of the proposed time-limited primary power(s)

79. The proposed power(s) will enable industry codes to be modified directly by Ofgem so as to facilitate expeditious and coordinated changes to industry codes. The new power(s) will also amend the existing appeals processes (for code modifications available to industry) from two appeals processes (CMA and Judicial Review) to one (Judicial Review only) as this is the default appeals process for new legislation. The new power (s) will allow Ofgem to reduce the licence modification standstill period from 56 days where it is deemed necessary.

80. The power(s) will be time-limited: the power(s) will only be exercisable for 5 years starting from commencement of the power(s).

## **5. Monetised and non-monetised costs and benefits of each option**

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81. This IA accompanies draft primary legislation which will be put forward for Pre-Legislative Scrutiny. The proposed power(s) will enable Ofgem to facilitate the switching and settlement reforms as outlined in Section 4. A subsequent updated IA produced by DECC will accompany the final primary legislation. There are no immediate costs or benefits associated with the proposed primary power(s) as the power(s) is a broad enabling power(s) and hence will not affect the nature of regulation in the sector until the scope of its use has been defined by Ofgem for both settlement and switching reforms.
82. However, given that Ofgem is likely to use this power(s) to directly modify industry codes instead of using the current SCR process, consideration has been given to the potential impacts on both industry and Ofgem of the new code modification process, in the form of an indicative quantitative and qualitative assessment. In addition, given the degree of uncertainty related to the overall quantitative impact of the actual settlement and switching reforms at this early stage of policy development, consideration has been given to the potential subsequent impacts of the reforms in the form of a qualitative assessment.
83. The quantitative assessment in this IA considers the potential costs/benefits to business and Ofgem of exercising the new power(s). While the assumptions underpinning the analysis are subject to a range of uncertainty, they have drawn on Ofgem's current views of how the new power(s) is likely to operate in practice and Ofgem's current view of the resource requirement for the pre-implementation phase (Enactment phase) that will be directly affected by the proposed power(s).
84. The potential impacts of the proposed power(s) on industry and Ofgem in the pre-implementation phase and the potential subsequent impact during the implementation phase of the reforms are considered in turn. The range of indicative quantitative assessments is summarised in Table 4.
85. Overall, under the central case the current assessment suggests that the potential additional costs to industry and/or Ofgem are likely to be negligible as a result of the new power(s). The assessment suggests that the overall potential impact of the new power(s) on both industry and Ofgem is likely to be net beneficial.
86. It should be noted that there is some uncertainty around the quantified impacts of the new power(s) relating to the risk of delay in the 'do nothing' (counterfactual) option. Where appropriate, the ranges or sensitivity analysis aims to reflect the current level of uncertainty around the potential direct impacts of the power(s). It should also be recognised that there is considerable uncertainty at this stage around the potential impacts on the actual implementation of the reforms as they will largely be determined by subsequent policy development by Ofgem, especially for the settlement reforms programme. This assessment should be viewed as indicative at this stage; the quantified assessment of the actual implementation of the reforms will be further clarified in a subsequent IA from Ofgem.
87. By definition, there are no additional impacts associated with the 'do nothing' (counterfactual) option.
88. This section outlines the monetised and non-monetised benefits/costs associated with Option 2 (the preferred option).

## 5.1 The do Nothing Option

89. Table 1 below illustrates the high-level timeline for the SCR process for the switching reforms programme. Given that the dates for the key milestones have not yet been confirmed as the policies are still being developed, the below timeline is only intended for illustrative purposes.

90. Ofgem has not yet produced a similar high level view of the key milestones for the SCR process for the electricity settlement reforms programme. However it is expected that the timeline for the settlement reforms programme will consist of broadly similar phases. For the purposes of this IA, it has been assumed that in the absence of the new power(s), the SCR process for the delivery of the settlement reforms programme will consist of the same phases as the switching reforms programme (as outlined in table 1).

**Table 1: Indicative Ofgem SCR timeline**

<b>SCR Process</b>				
<b>Year N-3</b>	<b>Year N-2</b>	<b>Year N-1</b>	<b>Year N</b>	<b>Year N+1</b>
<b>Phase 1</b>	<b>Phase 2</b>	<b>Phase 3</b>	<b>Phase 4</b>	<b>Phase 5</b>
Blueprint Phase	Detailed Level Specification Phase	<b>Enactment Phase</b>	Design Build and Test Phase	Go live (faster switching and half-hourly settlement)

91. In first phase of the SCR process, the Blueprint phase would define, at a high-level, the new switching and settlement arrangements. It is expected that this phase would involve a series of workgroups which Ofgem would chair and lead. The workgroups would be made up of industry and consumer representatives who would provide the expertise needed to develop the new arrangements. At the end of this phase it is expected that Ofgem would consult on their preferred market design and prepare a supporting IA<sup>23</sup>. There is no change to this phase under the proposed power(s).

92. The second phase is the Detailed Level Specification (DLS) phase; Ofgem would finalise the detailed design through industry workgroups. Once the workgroups conclude Ofgem would consult on its proposed decision. At the end of this phase Ofgem would issue the SCR Direction(s) to licensees to raise the modifications that give effect to the proposals across a range of industry codes<sup>24</sup>. There is no material change to this phase under the proposed power(s), aside from Ofgem not having to issue an SCR Direction(s) under the proposed power(s).

93. In the Enactment phase, industry would undertake the detailed drafting of the business rules and code modifications needed to deliver the changes for their respective codes. Under the SCR process industry's involvement would increase in this phase; Ofgem would continue to engage in the development of change via the industry workgroups (but would have no formal oversight role). Ofgem would make the licence modifications and approve the changes to industry codes in this phase. At the end of this phase, parties would have clear regulatory requirements that establish

<sup>23</sup> Ofgem, 2015, Moving to reliable next-day switching [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast\\_and\\_reliable\\_switching\\_decision\\_final.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast_and_reliable_switching_decision_final.pdf)

<sup>24</sup> Ofgem, 2015, Moving to reliable next-day switching [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast\\_and\\_reliable\\_switching\\_decision\\_final.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast_and_reliable_switching_decision_final.pdf)

what needs to be implemented and by when.<sup>25</sup> In this phase there is a risk of delay from industry parties that may not be incentivised to deliver the reforms as the proposed modifications to industry codes progress through the industry-led modification process. The proposed power(s) is expected to alter this phase (outlined in section 5.2 below).

94. In the Design Build and Test phase the approved design for carrying out the reforms will be built and tested by industry. Ofgem would monitor progress. The proposed power(s) is not expected to alter this phase.
95. During the Go live phase. Ofgem will monitor and evaluate the effects of the reforms on the market. The proposed power(s) is not expected to alter this phase.
96. In summary, relative to existing arrangements, the proposed power(s) is expected to primarily affect the Enactment phase. The appeals process associated with the SCR process (Judicial Review and CMA appeals route) will also be replaced with the Judicial Review. Section 5.2 outlines the specific details on the potential impacts of the proposed power(s).

## **5.2 Option: Additional powers to OfgemThe Do Something Option**

97. As outlined in Section 3, the primary power(s) are expected to:

- **Ensure that the policy objectives of the reforms are achieved**, as the new power(s) will enable Ofgem to take on the necessary leadership and coordination role; and
- **Minimise the resource requirement/reduce the risk of delay associated with the SCR process** in the pre-implementation phase (in the Enactment phase specifically) relative to the counterfactual for both Ofgem and industry. Under the SCR process, delays would be more likely to occur in the Enactment phase, which in turn would have meant an increase in resource costs for both Ofgem and industry in the Enactment phase. In addition, as Ofgem will be leading and coordinating the process, it is expected this will result in a more streamlined enactment phase.

98. The subsequent sections will set out the potential impacts of the proposed power(s) in the following way:

- a. Ofgem's leadership role (qualitative assessment);
- b. Streamlined pre-implementation phase (quantitative assessment);
- c. Expedited delivery of the actual switching and settlement reforms (qualitative assessment); and
- d. Amended appeals process (qualitative assessment).

a. Ofgem's leadership role:

99. The new power(s) is expected to address the lack of coordination that currently exists under the SCR process. The new power(s) will enable Ofgem to take on the necessary leadership and coordination role across industry codes and will enable Ofgem to lead the delivery of the programme

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<sup>25</sup> Ofgem, 2015, Moving to reliable next-day switching [web], available at: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast\\_and\\_reliable\\_switching\\_decision\\_final.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast_and_reliable_switching_decision_final.pdf)

whilst simultaneously ensuring that the programmes' objectives are met through effective coordination.

100. It has not been possible to quantify the benefit of potentially addressing the existing coordination failure, nor to provide a robust qualitative order of magnitude. However it is expected that this change could result in a reduction in the resource requirements (for both Ofgem and industry) associated with the delivery of the switching and settlement reform programmes as a result of the enhanced coordination. This is because better coordination of the whole process could potentially reduce any existing inefficiencies associated with the SCR process. This change is expected to be net beneficial relative to the existing arrangements.

b. Streamlined pre-implementation phase

101. The new power(s) is expected to reduce the length of time that the Enactment phase would take under the SCR process and hence reduce the resource requirement associated with the Enactment phase for both the settlement and switching reform programmes. We judge the risk of further delays by industry limited given control over timings by Ofgem

102. Under the SCR process proposed for the switching reforms, industry and Ofgem would develop and consult on the draft code modifications. Ofgem would then direct a licensee to raise the required modifications to industry codes. The proposals would then progress through the standard industry modification change control process which consists of a work group phase and an industry consultation phase followed by the Code Panel's<sup>26</sup> recommendation.

103. The new power(s) would allow Ofgem to develop the code modifications with industry, to consult on them and then issue a decision without the need for the formal industry change process outlined above. Consequently, it is expected that the new power(s) will reduce the length of the Enactment phase.

104. For both the switching and settlement reforms programme, avoiding the formal industry change process for modifying industry codes is expected to reduce the Enactment phase (for both Industry and Ofgem) by around 7.5 months relative to the counterfactual. This estimate is based on Ofgem's current plan for the switching reforms programme, however it should be noted that both the switching and settlement reform timetables have not been finalised given the early stage of policy development.

105. Table 2 outlines the length of the previous SCR processes. While the timings may vary depending on the complexity of the issues, Ofgem's expectation, when the SCR process was developed, was that the process would take up to 18 months. However the actual duration of previous SCR processes has been around 32-44 months.

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<sup>26</sup> Each code has a separate panel with separate governance arrangements

**Table<sup>27</sup> 2 Previous SCR processes.**

	SCR Launch Date	Ofgem Direction	Panel Recommendation	Code Modification decision	Total Duration
<b>Gas Security of Supply</b>	Jan-2011	Sep-2014	n/a*	n/a*	44 Months
<b>Electricity Transmission Charging (Transmit)</b>	Jul-2011	May-2012	Jun-2013	Jul-2014	36 Months
<b>Electricity Balancing</b>	Aug-2012	May-2014	Mar-2015	Apr-2015	32 Months

\* no industry led process/panel as Ofgem directed changes to the UNC using powers under s.36C of the Gas Act

106. The new power(s) may also reduce the risk of delay associated with the current SCR process. We have quantified the potential reduction of this risk as set below.

107. For the switching reforms programme, based on the delay periods of each of the previous SCR processes, Ofgem’s best estimate of the potential delay to the Enactment phase under the SCR process is around 12 months in the central case. This assumption takes into account the possibility that Ofgem is likely to introduce (without legislation) additional streamlining measures by the end of 2016 to reduce the resource requirement for the Enactment phase under the SCR process. This would reduce the expected delays relative to the experience of previous SCRs as set out in Table 2.

108. For the settlement reforms programme, it is considered appropriate to assume an expected delay to the Enactment phase under the SCR process of around 6 months (or half the delay assumed for the switching reforms programme). This is because, unlike the switching reforms programme, this policy only applies to electricity rather than both gas and electricity. This assumed reduced risk of delay reflects the reduced complexity of developing code modifications relating to one, instead of two fuels.

109. Consequently in addition to the expected resource savings identified in the Paragraph 104, given that it is highly likely that the Enactment phase would have been delayed in the counterfactual the new power(s) is expected to reduce the Enactment phase relative to the counterfactual by a total of:

- 19.5 months for the switching reforms programme (12 months for the expected delay savings and 7.5 months for the expected resource savings from avoiding the industry change control process); and
- 13.5 months for the settlement reforms programme (6 months for the expected delay savings and 7.5 months for the expected resource savings from avoiding the industry change control process).

110. Table 3 outlines the assumptions underpinning the scenarios used in this IA.

<sup>27</sup> Ofgem, 2015, Open letter on Further Review of Industry Code Governance [web], available at: <https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/cgr-open-letter.pdf>

**Table 3: Summary of scenarios for switching/settlement reforms programme\***

<b>Switching reforms programme</b>			
<b>Assumption</b>	<b>Low scenario</b>	<b>Central</b>	<b>High Scenario</b>
Resource saving: Industry change control process	7.5 months	7.5 months	7.5 months
Resource saving: Potential SCR delay	0 months	12 months	24 months
<b>Total Resource saving:</b>	<b>7.5 months</b>	<b>19.5 months</b>	<b>31.5 months</b>
<b>Settlement reforms programme</b>			
<b>Assumption</b>	<b>Low scenario</b>	<b>Central</b>	<b>High Scenario</b>
Resource saving: Industry change control process	7.5 months	7.5 months	7.5 months
Resource saving: Potential SCR delay	0 months	6 months	12 months
<b>Total Resource saving:</b>	<b>7.5 months</b>	<b>13.5 months</b>	<b>19.5 months</b>

\* Resource savings assumed to accrue in the Enactment phase only

111. It should be noted that there is a considerable level of uncertainty associated with the assumed central case resource savings associated with minimising the risk of delay associated with the SCR process, given the small number of previous SCR processes that the assumption is based on. As such it is considered appropriate to include both low and high scenarios to reflect the level of uncertainty. The 7.5 month assumption related to the savings from the industry change control process for both reforms programmes is based on Ofgem’s current plan for the switching reforms programme and hence no scenarios have been used for this assumption.

112. Table 4 outlines the expected total savings for both the switching and settlement reforms over an appraisal period of five years. Given the early stage of policy development for both programme of reforms (more so for the settlement reforms), there is some uncertainty surrounding the period over which the potential savings outlined below will likely be accrued. For the purpose of this IA, to demonstrate that the savings will be accrued in the future, we have assumed that the savings will be accrued evenly over 2 years (2018 & 2019) for both programmes of reforms (the last two years of the appraisal period).

113. The monthly resource cost estimates are based on Ofgem’s best view (given previous SCR experiences) of the resource requirements in the Enactment phase under the SCR process. Further information on the assumptions underpinning the resource estimates can be found in Paragraph 84 (the assumptions section).



**Table 4: Summary of the expected total savings\***

<b>Switching Reforms</b>			
<i>Assumptions</i>	<b>Low</b>	<b>Central</b>	<b>High</b>
Resource savings (months): Ofgem	-7.5	-19.5	-31.5
Resource savings (months): Industry	-7.5	-19.5	-31.5
Monthly resource cost (2015 prices, undiscounted): Ofgem	£60,000		
Monthly resource cost (2015 prices, undiscounted): Industry	£110,000		
<b>Total Saving (2015 prices, undiscounted): Ofgem</b>	<b>-£420,000</b>	<b>-£1,100,000</b>	<b>-£1,780,000</b>
<b>Total Saving (2015 prices, undiscounted): Industry</b>	<b>-£810,000</b>	<b>-£2,110,000</b>	<b>-£3,410,000</b>
<b>Total Saving (2015 prices, discounted 2015 PV): Ofgem</b>	<b>-£380,000</b>	<b>-£980,000</b>	<b>-£1,580,000</b>
<b>Total Saving (2015 prices, discounted 2015 PV): Industry</b>	<b>-£720,000</b>	<b>-£1,870,000</b>	<b>-£3,030,000</b>

<b>Settlement Reforms</b>			
<i>Assumptions</i>	<b>Low</b>	<b>Central</b>	<b>High</b>
Resource savings (months): Ofgem	-7.5	-13.5	-19.5
Resource savings (months): Industry	-7.5	-13.5	-19.5
Monthly resource cost (2015 prices, undiscounted): Ofgem	£57,000		
Monthly resource cost (2015 prices, undiscounted): Industry	£108,000		
<b>Total Saving (2015 prices, undiscounted): Ofgem</b>	<b>-£420,000</b>	<b>-£760,000</b>	<b>-£1,100,000</b>
<b>Total Saving (2015 prices, undiscounted): Industry</b>	<b>-£810,000</b>	<b>-£1,460,000</b>	<b>-£2,110,000</b>
<b>Total Saving (2015 prices, discounted 2015 PV): Ofgem</b>	<b>-£380,000</b>	<b>-£680,000</b>	<b>-£980,000</b>
<b>Total Saving (2015 prices, discounted 2015 PV): Industry</b>	<b>-£720,000</b>	<b>-£1,300,000</b>	<b>-£1,870,000</b>

\* Totals may not sum due to rounding.

114. In the central scenario, for industry, the new power(s) could result in discounted benefits of around £1.9 million (2015 prices) for the switching reforms programme and around £1.3 million (2015 prices) during the settlement reforms programme as a result of the reduction in the resource requirement under the Enactment phase. The potential estimated discounted benefits for Ofgem are around £1 million and £0.7 million (2015 prices) for the switching and settlement reforms programme respectively.

115. Given the level of uncertainty around the expected resource savings associated with minimising the risk of delay associated with the current SCR process, a range based on high/low scenarios has also been provided. Under the high/low scenarios the potential estimated discounted industry savings are between £0.7 – 3.0 million (2015 prices) for the switching reforms programme and between £0.7 – 1.9 million (undiscounted, 2015 prices) for the settlement reforms programme as a result of the reduction in the resource requirement under the Enactment phase. The potential estimated discounted Ofgem savings are between £0.4 – 1.6 million and £0.4 – 1.0 million for the switching and settlement reforms programme respectively.

c. Expedited delivery of the actual switching and settlement reforms

116. As outlined in Section 3, the new power(s) would enable Ofgem to facilitate the implementation of the switching and settlement reforms in a timelier, more coordinated and more cost-effective manner which ensures the best outcomes for both consumers and industry relative to the existing arrangements. The previous sections outlined the potential impacts of the enabling power(s).

117. In addition, it should be noted that given that the new power(s) could result in the shortening of the pre-implementation (Enactment phase specifically), another potential subsequent benefit of the proposed power(s) is the earlier implementation of the actual switching and settlement reforms.
118. Given the early stage of policy development for both the switching and settlement reforms programme (more so for the settlement reforms programme) it has not been possible to quantify the impact of an earlier implementation date for the programmes. It is expected that both switching and settlement reform programmes will have a positive Net Present Value (NPV), hence the impact of bringing forward the delivery date by 19.5 months and 13.5 months for the switching and settlement programmes respectively is expected to be net beneficial (all else equal). The NPVs of both programmes of reforms are expected to be positive as the overarching objective of both reforms is to address the existing barriers to consumer engagement, consumer choice and competition in the most cost-effective manner. The benefits of both reform programmes will be further clarified in a subsequent IA(s) produced by Ofgem.

d. Amended appeals process

119. The proposed power(s) will provide for appeal only by Judicial Review (JR) and not to the CMA, as is currently the case when Ofgem reject a panel recommendation. The potential impact on industry and Ofgem of not retaining the CMA appeals route is uncertain. However, it is considered that JR will be sufficient as Ofgem will be working closely with industry to develop the new arrangements and intend to ensure adequate scrutiny and expert input through extensive consultation with industry parties. This should help secure industry support, at the end of this phase, for the code and licence modifications that will be made. The new power(s) is expected to reduce the scope of influence for industry to appeal the policy at the end of the Enactment phase, but the power(s) will also incentivise industry to work closely with Ofgem during the pre-implementation phases to ensure effective policy development. The risk of sub-optimal policy development due to the loss of the CMA appeal route is therefore limited. It has not been possible to quantify this change nor to give a robust qualitative order of magnitude of the impact. However, it is considered that the overall potential impact of this change will be negligible, as the JR will remain and industry will still be able to challenge the policy throughout the pre-implementation phases.

e. Reducing licence modification standstill period

120. The proposed power(s) will allow Ofgem, in consultation with industry to reduce the length of time of the standstill period after which a licence change may come into effect. It is assumed that unless the circumstances of the programme require it, the 56-day period will be the default period after which licence modifications are effective. Therefore, while it has not been possible to quantify the impact of this change, in the circumstances where it allows licence modifications to take place in a more time efficient manor, we expect that the impact of this power(s) will be net beneficial.

### **5.3 Summary of monetised/non-monetised Estimates**

121. It should be noted that this is a current assessment of the potential costs and benefits to business but the direct impacts will depend on subsequent operational directions to be provided by Ofgem. It is considered that these primary legislative enabling powers will not, by themselves, alter the regulatory burden on business.
122. We have monetised as far as possible the possible impacts and included a qualitative assessment of the potential indirect impacts of the new provisions. The potential impacts are however uncertain at this stage of policy development and therefore the ranges (where presented) should be viewed purely as indicative of the potential magnitude of benefits which may accrue. The estimates will therefore be refined in subsequent impact assessment(s) produced by DECC in light of any further policy development work led by Ofgem.

- Quantitative assessment

123. In summary, the proposed power(s) are expected to shorten the Enactment phase by around 7.5 months and to reduce the risk of delay in the counterfactual by around 12 months for the switching reforms programme and by around 6 months for the settlement reforms programme in the central case. Under the central case over a five year appraisal period, the discounted potential savings (2015 prices) for Ofgem are expected to be around £1 million and £0.7 million for the switching and settlement reforms programmes respectively. The discounted potential savings (2015 prices) for Industry are expected to be around £1.9 million and £1.3 million for the switching and settlement reforms programmes respectively.

- Qualitative assessment

124. In addition to the potential benefits from the streamlined enactment phase which have been outlined in the preceding section, the proposed power(s) is expected to address the lack of coordination that currently exists under the SCR process. It has not been possible to quantify this benefit however it is expected that this change could result in a reduction in the resource requirements (for both Ofgem and Industry) associated with delivering the reforms programmes as it could potentially reduce any existing inefficiencies associated the existing SCR process. This change is expected to be net beneficial relative to existing arrangements.

125. It has not been possible to quantify the earlier implementation date for the actual switching and settlement reforms however it is expected that both programmes will have a positive NPV. Hence the impact of bringing forward the delivery date of the reforms by 19.5 and 13.5 months for the switching and settlement programmes respectively is expected to be net beneficial (all else equal).

126. It has not been possible to quantify the change to the existing appeals process, however it is considered that the overall potential impact of this change will be negligible, as the JR will remain and industry will still be able to challenge the policy throughout the pre-implementation phases.

127. Finally it has not been possible to quantify the impact of the reduction in the licence modification standstill period. The impact is likely to be relatively small, however where this allows the process to take place in a more time efficient manor, we would expect this change to have a net beneficial impact.

## **5.4 Assumptions**

128. The following assumptions were used in the analysis:

- The NPV base year is 2015, a 3.5% real discount rate is used and all values are expressed in 2015 prices.
- Subject to Parliamentary approval, the power(s) are assumed to come into force by mid-2017, and the resource savings have been assumed to accrue evenly over 2018 & 2019 (though the policies are still at an early stage of development, this period is uncertain).
- Appraisal period: 5 years

129. Tables 5 and 6 outline the assumptions underpinning the monthly resource costs used in Table 4 for both Ofgem and Industry<sup>28</sup>.

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<sup>28</sup> Totals may not sum due to rounding.

**Table 5: Ofgem Employment cost assumptions<sup>29</sup>**

FTEs	Aggregate monthly resource cost (incl ENIC) <sup>30</sup>	Aggregate daily resource cost <sup>31</sup>
11	£57,000	£3,000

**Table 6: Industry Employment cost assumptions<sup>32</sup>**

Detail	Number per annum	Number of attendees	Working days	Annual Salary (including ENIC) <sup>33</sup>	Daily resource cost <sup>34</sup>	Monthly Resource cost <sup>35</sup>
Working groups	63	15	2	£78,000	£600	£95,000
Meetings	13	20	1	£78,000	£600	£13,000
				<b>Total</b>	£6,000	£108,000

- Risks and uncertainty

130. It should be recognised that there is considerable uncertainty surrounding the estimated impacts presented in this IA. They are indicative in nature and will be revised in the subsequent Impact Assessment(s) that will accompany Ofgem’s policy development.

<sup>29</sup> Assumptions provided by Ofgem.

<sup>30</sup> Monthly rates were calculated assuming 220 working days or 18 working days per month.

<sup>31</sup> Daily rates were calculated assuming 220 working days per annum.

<sup>32</sup> Assumptions provided by Ofgem.

<sup>33</sup> Salaries are based on the Annual Survey of Hours and Earnings (ASHE) Office for National Statistics (corporate managers), an uplift factor was applied to the salary assumptions to account for the additional employment costs that employers incur (ENIC, superannuation and accommodation costs).

<sup>34</sup> Daily rates were calculated assuming 220 working days per annum. This includes around £250 per day per person as a conservative estimate for non-staff costs: travel, travel, hotels etc.

<sup>35</sup> Monthly rates were calculated assuming 220 working days or 18 working days per month.

## **6. Direct costs and benefits to business (OITO methodology)**

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131. The One-in, Two-out (OITO) rule ensures that any new regulatory measure that is expected to result in a direct net cost to business and civil society organisations must be offset by compensatory deregulatory measures providing savings to business of at least double that amount.
132. While the policy is in scope of the OITO rule, the introduction of power(s) in primary legislation will not result in immediate impacts on business and therefore should be considered as zero net cost. Where possible this Impact Assessment provides estimates of the potential impacts associated with implementing the proposed power(s). As outlined in the preceding section, in the central case over a five year appraisal period, the potential savings (discounted, 2015 prices) for Industry are expected to be around £1.9 million and £1.3 million for the switching and settlement reforms programmes respectively.
133. The estimates are however subject to significant uncertainty, and will be updated in the subsequent IA produced by DECC to accompany the final primary legislation. Ofgem will prepare final Impact Assessments for both the settlement and switching reforms programmes which will present a holistic assessment of the impacts associated with the delivery of the reform programmes. However given that Ofgem is the regulator, it will not be required to assess the overall impact on business as a result of the new power(s) for the purposes of OITO.

## **7. Wider impacts**

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134. The proposed primary power(s) are enabling power(s); hence the proposed legislation will not result in any immediate wider impacts.
135. However, the key potential wider impact of the proposed power(s) is enhanced competition in the energy market. The proposed power(s) will enable Ofgem to deliver both reform programmes more efficiently relative to the counterfactual.
136. The actual implementation of the reform programmes is expected to make the switching process faster and more reliable for consumers and to open up opportunities for time-of-use tariffs and demand-side response. These reforms are expected to:
- a. Increase customer engagement/consumer choice; and to
  - b. Promote a more even playing field for suppliers to compete more effectively.
137. The increase in customer engagement/consumer choice and the increase in the ability of suppliers to effectively compete together are expected to promote a more dynamic and efficient energy market which would benefit consumers and market participants.
138. Moreover the increase in customer engagement could result in overall reductions in energy consumption which could deliver further environmental benefits.
139. The potential wider impacts outlined above will be further clarified in the subsequent IAs to accompany the proposed switching and settlement reforms which will be produced by Ofgem.

## **8. Rationale and evidence that justifies the level of analysis**

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140. The analysis contained in this Impact Assessment is considered proportionate at this stage of policy development and to accompany pre-legislative scrutiny. The analysis sets out preliminary estimates of the potential impacts associated with the implementation of the proposal as a whole. The appraisal period of 5 years is considered an appropriate time horizon for providing an initial assessment for the potential costs and benefits associated with the proposed primary legislation. The key analytical risks and uncertainties have been identified. The monetised impacts presented in this impact assessment are indicative in nature and will be revisited as part of the introduction of final legislation next year to reflect any further policy development by Ofgem.

## **9. Small and Microbusiness Assessment (SMBA)**

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141. The exact number of small or microbusinesses (defined as having up to 49 FTE and 10 FTE employees respectively, as per BIS Better Regulation Framework Manual) that the proposed provisions will affect is uncertain. However, both types of companies operate in this sector.

142. The Government believes that including businesses of all sizes in the policy will promote a higher level and more effective co-ordination by the new Regulator and will allow extracting the maximum benefit from the implementation of the provisions. Given that the proposed power(s) are enabling power(s), there are no immediate impacts expected for small and microbusinesses.

143. It is expected that small and microbusinesses could also benefit from the resource savings identified in Section 5 as a result of the timelier and more cost effective programme. The intention is not to impose any disproportionate burden on companies of any size.

## **10. Summary and preferred option with description of implementation plan**

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144. In summary, Option 2 or the 'Do something' option is the preferred option rather than the 'Do nothing' option. Option 2 would involve new primary power(s) for Ofgem as this would enable Ofgem to facilitate the delivery of the reforms programmes in a timelier, more coordinated and more efficient manner. As enabling power(s), there are no immediate monetised costs or benefits to business associated with this stage of the implementation. The potential costs and benefits of implementing the provisions have been assessed so far as possible at this stage. Ofgem and/or DECC will prepare further IAs as the policies are developed further.

145. As with any other use of public resources, it is important to monitor performance and review the service routinely. The policies outlined in this Impact Assessment have a review date of 2022

## Appendix A: Summary of the key documents referred to in this Impact assessment

Title	Scope	Status
Ofgem, 2013, Forward Work Programme 2014-15	This document outlines the projects that Ofgem considers will make the greatest difference to consumers in the coming financial year.	Published, can be found at: <a href="https://www.ofgem.gov.uk/sites/default/files/docs/2013/12/forward_work_programme_2014-15_final.pdf">https://www.ofgem.gov.uk/sites/default/files/docs/2013/12/forward_work_programme_2014-15_final.pdf</a>
Ofgem, 2014, State of the Market Assessment	This document sets out Ofgem's joint assessment of the state of competition in the energy markets in Great Britain, and how well competition is serving the interests of households and small firms.	Published, can be found at: <a href="https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/assessment_document_published_1.pdf">https://www.ofgem.gov.uk/sites/default/files/docs/2014/03/assessment_document_published_1.pdf</a>
Ofgem, 2014, Electricity settlement reform – moving to half-hourly settlement	After a period of scoping Ofgem considers that is in consumers' interests to be settled against their half-hourly consumption data. In this document, Ofgem explains its' reasoning and sets out its' plans for examining how this can be achieved through the settlement project.	Published, can be found at: <a href="https://www.ofgem.gov.uk/sites/default/files/docs/2014/04/electricity_settlement_launch_statement_0.pdf">https://www.ofgem.gov.uk/sites/default/files/docs/2014/04/electricity_settlement_launch_statement_0.pdf</a>
Ofgem, 2015, Update on electricity settlement project	This document provides an update on Ofgem's electricity settlement reforms project.	Published, can be found at: <a href="https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/settlement_final_doc.pdf">https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/settlement_final_doc.pdf</a>
Conservative Party, 2015, Election Manifesto 2015	This document sets out the Government's Manifesto commitments including its' energy commitments.	Published, can be found at: <a href="http://ucrel.lanacs.ac.uk/wmatrix/ukmanifestos2015/localpdf/Conservatives.pdf">http://ucrel.lanacs.ac.uk/wmatrix/ukmanifestos2015/localpdf/Conservatives.pdf</a>
Ofgem, 2015, Forward Work Programme 2015-16	This document outlines the projects that Ofgem considers will make the greatest difference to consumers in the coming financial year.	Published, can be found at: <a href="https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/forward_work_programme_2015-16_25march2015_0.pdf">https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/forward_work_programme_2015-16_25march2015_0.pdf</a>
Ofgem, 2014, Moving to reliable next-day switching (consultation)	This document outlines Ofgem's consultation on how best to deliver the needed switching reforms.	Published, can be found at: <a href="https://www.ofgem.gov.uk/sites/default/files/docs/2014/06/fast_and_reliable_switching_con_docfinal_0.pdf">https://www.ofgem.gov.uk/sites/default/files/docs/2014/06/fast_and_reliable_switching_con_docfinal_0.pdf</a>
Ofgem, 2015, Moving to reliable next-day switching (decision)	This document outlines Ofgem's decision to move ahead with plans to deliver faster switching reforms.	Published, can be found at: <a href="https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast_and_reliable_switching_decision_final.pdf">https://www.ofgem.gov.uk/sites/default/files/docs/2015/02/fast_and_reliable_switching_decision_final.pdf</a>

CMA, 2015, Energy Market Investigation: summary of provisional findings report	This document is a summary of the CMA's provisional findings from its' ongoing Investigation into the Energy Market.	<a href="https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI_PFs_Summary.pdf">https://assets.digital.cabinet-office.gov.uk/media/559ad883e5274a155c00001b/EMI_PFs_Summary.pdf</a>
CMA, 2015, Energy Market Investigation: notice of possible remedies	This document outlines the CMA's possible remedies.	Published, can be found at: <a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442489/EMI_Remedies_Notice_-_Final.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442489/EMI_Remedies_Notice_-_Final.pdf</a>
Ofgem, 2015, The Retail Market Review: background and publications	This website provides background information on Ofgem's Retail Market Review.	Published, can be found at: <a href="https://www.ofgem.gov.uk/simpler-clearer-fairer/retail-market-review-background-and-publications">https://www.ofgem.gov.uk/simpler-clearer-fairer/retail-market-review-background-and-publications</a>
Ofgem, 2015, Open letter on Further Review of Industry Code Governance	This letter outlines Ofgem's concerns with the existing industry code governance arrangements. The letter also seeks views from stakeholders on the issues with the existing arrangements and how best to overcome them.	Published, can be found at: <a href="https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/cgr-open-letter.pdf">https://www.ofgem.gov.uk/sites/default/files/docs/2015/05/cgr-open-letter.pdf</a>

## Appendix B: Glossary

BSC	Balancing and Settlement Code
CRS	Centralised Registration Service
CMA	Competition and Markets Authority
DCC	Data and Communications Company
DSR	Demand Side response
DECC	Department of Energy and Climate Change
DLS	Design Level Specification
ENIC	Employer's National Insurance Contributions
EANCB	Equivalent Annual Net cost to Business
IA	Impact Assessment
Ofgem	Office of Gas and Electricity Markets
OITO	One In Two Out
SCR	Significant Code Review
SEC	Smart Energy Code



## Appendix C: SCR process: background

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The Significant Code Review (SCR) mechanism enables Ofgem to direct licensee(s) to make changes to relevant industry codes to deliver outcomes specified in an SCR Direction made by Ofgem.

The SCR process was introduced by Ofgem following their Code Governance Review (CGR) which concluded in 2010 and was then extended to cover all of the industry codes in 2013, following the conclusion of the second phase of CGR (CGR2).

The SCR process was introduced by CGR to enable Ofgem to lead holistic reviews, to deliver complex and/or cross code changes. Ofgem set out in our March 2010 final proposals document that they would give as much notice as possible and consult with stakeholders before undertaking an SCR, where possible flagging it in our Corporate Plan. Ofgem also noted that they did not expect to undertake more than one or two SCRs per financial year.

Ofgem set out a standard template and process for SCRs. The process, broadly speaking, is made up of two phases:

- Ofgem-led phase:

- Ofgem consult on the intention to undertake an SCR and its scope
- if Ofgem decide to undertake an SCR, they consult with industry (through written consultations and work groups) to develop and assess options
- at the end of this phase, Ofgem issue their conclusions and, if appropriate, an SCR direction to a relevant licensee to raise a code modification(s)

- Industry-led phase:

- a licensee raises a modification proposal in accordance with Ofgem's direction
- the modification is developed and assessed by industry, alongside any alternatives, through work groups and industry consultation
- The panel makes a recommendation on whether Ofgem should approve or reject the modification proposal or any alternative, and it is sent to us for a decision.

Ofgem make their decision on the proposed modification(s) following the industry led phase and panel recommendation.

Ofgem set out that the process may vary on a case by case basis according to the complexity or contentiousness of the issues at stake, and that we would keep this under review in light of experience of the SCR process. In addition, they set out that the precise duration of an SCR would also vary according to the complexity of the issue, but they expected that the Ofgem led phase described above would take no longer than 12 months in most cases, the industry phase 6 months and that they expected to make their decision within 25 working days.

Ofgem also initially proposed a back stop power for Ofgem to draft code modifications. While they stated that they did not agree with those who opposed this power on the grounds of unfairness, and the Competition Commission (the predecessor to the Competition and Markets Authority (CMA)) agreed with their views, they did not proceed with this proposal.