

UR Approach to Retail Energy Market Monitoring

An Information Paper

June 2014



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission:

Value and sustainability in energy and water

Our Vision:

We will make a difference for consumers by listening, innovating and leading

Our Values:

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted

Be a united team

Be collaborative and cooperative

Be professional

Listen and explain

Make a difference

Act with integrity

Abstract

The purpose of this information note is to give our stakeholders a high level introduction to Retail Energy Market Monitoring (REMM) and to facilitate engagement at an early stage of development of the project. REMM is a flagship project for the Utility Regulator during 2014/15, and is one of three projects which combine to deliver our strategic approach to energy retail markets and consumer protection. The ultimate objective of REMM is to implement an effective and proportionate enhanced market monitoring framework for the electricity and gas supply sectors in Northern Ireland. We look forward to engaging with our stakeholders to deliver an effective monitoring framework.

Audience

This document is most likely to be of interest to regulated supply and distribution companies in the energy industry, consumer organisations, business/industry representatives and regulatory authorities.

Consumer impact

There are four main areas of consumer impact associated with REMM:

1. There is a legislative requirement placed on all National Regulatory Authorities to monitor retail markets effectively. Consumer benefit from this is recognised at the EU level.
2. There may be a detrimental impact to consumers if the UR fails to monitor the retail markets effectively. Without access to necessary supplier information, the UR will not be able to ensure that consumers are being protected.
3. Proactive monitoring will allow us to set policies to protect our consumers which are based on appropriate knowledge of what is happening in the market.
4. Consumers will have increased access to comparable supplier information which will enable them to engage more actively in the energy market.

1. Introduction to Retail Energy Market Monitoring (REMM)

The Utility Regulator (UR) has committed to design and implement a robust Retail Energy Market Monitoring (REMM) framework in 2014/15. The ultimate objective of REMM is to implement an effective and proportionate enhanced market monitoring framework for the electricity and gas supply sectors in Northern Ireland (NI). This is one of three flagship projects which combine to deliver our strategy on consumer protection and retail market regulation¹ and strike the appropriate balance between delivering effective competition and maintaining regulatory protection.

The REMM project will develop, consult on and implement a wide and comprehensive framework that will:

- enable us to monitor the NI energy retail markets (electricity and gas) effectively;
- identify risks in our retail market, address these early and proactively;
- fulfil our duties on licence compliance monitoring;
- inform regulatory and energy policy and price controls; and
- protect and inform consumers by promoting consumer engagement through increased transparency.

2. Rationale for REMM

Current market monitoring

The UR already undertakes retail market data collection – REMM will build on this. Our current retail market monitoring was established as the retail markets opened to competition and involves the collection, analysis and publication of some key energy supply information in both electricity and gas markets. This includes information on supplier market share, switching activity, domestic energy prices and comparisons between NI and EU non-domestic electricity prices. On an annual basis we publish our Energy Retail Report², and more frequently we publish the Quarterly Transparency Report³ (QTR) both of which include key information as mentioned above. The ongoing review of the retail market and the regular production of these reports have enabled us to develop a useful base dataset of retail market information.

In addition to this information, we also monitor how suppliers comply with their licences. Licence compliance is an important part of any monitoring regime. The UR will enhance this area of monitoring through the REMM project and will ensure consistency across the electricity and gas sectors.

¹

UR Strategic Approach to Energy Retail Markets and Consumer Protection – an information paper. May 2014.
http://www.uregni.gov.uk/uploads/publications/Strategic_Overarch_Paper.pdf

² Quarterly Transparency Reports, published on our website on the second month after each calendar quarter:
http://www.uregni.gov.uk/publications/view/utility_regulator_publishes_retail_energy_market_monitoring_report/

³ The annual Energy Retail Reports (ERRs) can be found in this link:
http://www.uregni.gov.uk/publications/view/utility_regulators_annual_energy_retail_reports/

Statutory duties and powers

The UR exercises its statutory functions in accordance with the principal objective and general duties, as set out in Articles 12 and 14 of the Energy (Northern Ireland) Order 2003. The principal objective in carrying out our electricity functions is

“to protect the interests of consumers of electricity [...] wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity”.

With regard to our gas functions, the principal objective is to

“promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.”

Section 14 of the order also states that we need to carry out this principal objective having regard to

“the need to ensure a high level of protection of the interests of consumers of gas.”

Consumer protection is a key consideration when exercising our statutory powers. Therefore, we must monitor the markets, supplier behaviour and subsequent impacts on consumers in order to fulfil our principal objectives.

The implementation of the Third Energy Package (IME3) in Northern Ireland has further emphasised the need to protect consumers and reinforce energy retail market monitoring. For example, our monitoring powers have been outlined in more detail requiring the UR to monitor

“the level and effectiveness of market opening and competition at wholesale and retail levels, including on [natural gas and electricity] exchanges, prices for household customers including prepayment systems, switching rates, disconnection rates, charges for and the execution of maintenance services and complaints by household customers, as well as any distortion or restriction of competition ...”

It is in this context that the UR is now beginning to review and enhance our market monitoring framework.

Developing our monitoring

A perceived lack of information and effective monitoring has been one of the recent criticisms about regulatory control over energy supply markets in GB. The UR is keen to lessen that potential risk. We need to enhance our current market monitoring framework for the following reasons:

- EU Directives (IME3) legally require National Regulatory Authorities (NRAs) to monitor the efficient functioning of the competitive market in order to protect consumer interests. Enhanced market monitoring will enable the UR to demonstrate this consumer protection.

- Our statutory duties place a strong emphasis on consumer protection. The effective monitoring of retail markets and licence compliance is important and is widely-accepted as a tool for us to meet those duties.
- Publication of market monitoring information provides transparency to the wider community (energy consumers, politicians and stakeholders) that is impacted by the operation of energy retail markets.
- REMM will enable us to have a better understanding of how the energy retail market is working, and if competition is developing and being supported.
- REMM will facilitate better-informed regulatory and energy policy and price control decisions, and enable risks to be identified, assessed and addressed proactively.
- Consumers will have access to more detailed information about energy suppliers which could promote switching by increasing consumer engagement.

3. Principles for the development of REMM

REMM will include the monitoring of both **domestic and non-domestic** sectors of the **electricity and gas** retail markets. In developing REMM it is essential that we are mindful of the key principles of regulation and apply these appropriately.

Proportionality will be a core principle of REMM. We will only ask for information which will help us carry out our statutory functions (in accordance with EU requirements, our principle objective and general duties) and which will enable us to ensure suppliers are compliant with their licences. We will seek to ensure that the monitoring and data provision activities will not be overly burdensome on suppliers, whilst giving us the information we need to fulfil our duties. An organised system of data collection will be developed and a timetable will give suppliers notice of the frequency of collection, timelines for responses, etc.

Consistency will also be a core principle of REMM. The information requests will be standard for all energy suppliers unless there are requirements which are specific to either the electricity or gas markets. There may also be specific additional requirements for incumbent suppliers. In addition, we will work internally to ensure (as far as possible) that suppliers do not receive multiple requests for the same information from different teams. Any definitions relating to the information collected will be consistent where appropriate across the organisation so that reporting and monitoring is fair and comparable.

Another principle of good regulatory practice which will be adopted throughout REMM is **accountability**. The UR has a duty to protect all consumers in Northern Ireland and as such is accountable to these consumers. We must demonstrate that we have the information necessary to protect the interests of consumers, and we will be accountable for the quality and timeliness of our REMM work. In order to do this we must ensure that the information submitted by suppliers is credible and accurate. For their part, suppliers will be accountable, under the

licence compliance and enforcement framework, for the information submitted to the UR under REMM.

Finally, we will act in a **transparent** way. We will develop our REMM framework in an open and transparent manner, explaining our plans and seeking feedback from stakeholders at each stage. In future, we will publish relevant information which promotes positive engagement between consumers and suppliers, thus enabling consumers to be informed and empowered to participate in the energy market.

4. Key considerations

We consider REMM as a challenge and an opportunity for both suppliers and the UR to work together to provide additional information to consumers and increase consumer confidence in energy markets in NI.

One of the most important areas for consideration throughout the development of REMM is ensuring **clarity** with regard to the indicators which are selected. We will ensure that each indicator has a clear definition and is carefully explained in order to ensure consistency and comparability across all suppliers. Consistency will also help future benchmarking with other EU member states. We will also be clear about the level of disaggregation of customer groups which is required for each indicator. We aim to find the optimum balance of disaggregation and data provision burden, and we anticipate that some indicators will have greater disaggregation than others.

As we develop REMM we will decide how to use the information internally and what information we will **publish** externally. In doing so, we will consult with suppliers and mitigate any potential issues such as confidentiality or commercial sensitivity. We will publish any information which is mandatory under the supply licence conditions and other information which we deem necessary for increased consumer protection (as stated above)

The **quality and accuracy** of information received is crucial to the success of REMM. In order to promote the provision of high quality, accurate and timely information we will require that information submissions are signed off at an appropriate senior level within supply companies. Suppliers must be accountable for the information that they provide for market monitoring.

5. Development and scope of REMM

We have organised a briefing session to introduce our stakeholders to REMM. Following this, REMM will develop in two main phases. Each phase will include a consultation paper with accompanying draft templates for information submissions. The consultations will provide detailed definitions for all indicators, along with a clear rationale for inclusion in REMM.

Phase 1

This will be developed in 2014-15. The stakeholder briefing session will be followed up with a number of meetings with suppliers as we develop our monitoring indicators and consultation document. Following the publication of our consultation document (with accompanying draft information templates) we will arrange a workshop with all stakeholders in order to facilitate discussions on the indicators and draft information templates. Phase 1 of REMM will include:

- Enhanced compliance indicators from both the electricity and gas supply licences (particularly consumer impacting licence conditions) – these will be used to demonstrate how suppliers are complying with their licences and how consumers are protected during interactions with suppliers.
- Current indicators such as market share, customer numbers and tariffs etc (published via the Quarterly Transparency Reports).
- Indicators resulting from conclusions on current projects (e.g. on electricity prices).
- Best practice indicators from EU or other NRAs that are currently being used to evaluate the development of retail energy markets (for example CER).
- Specific indicators for incumbent suppliers.
- Clarity on definitions of indicators requested.
- Clarity on disaggregation of consumer groups for the indicators requested.

Phase 2

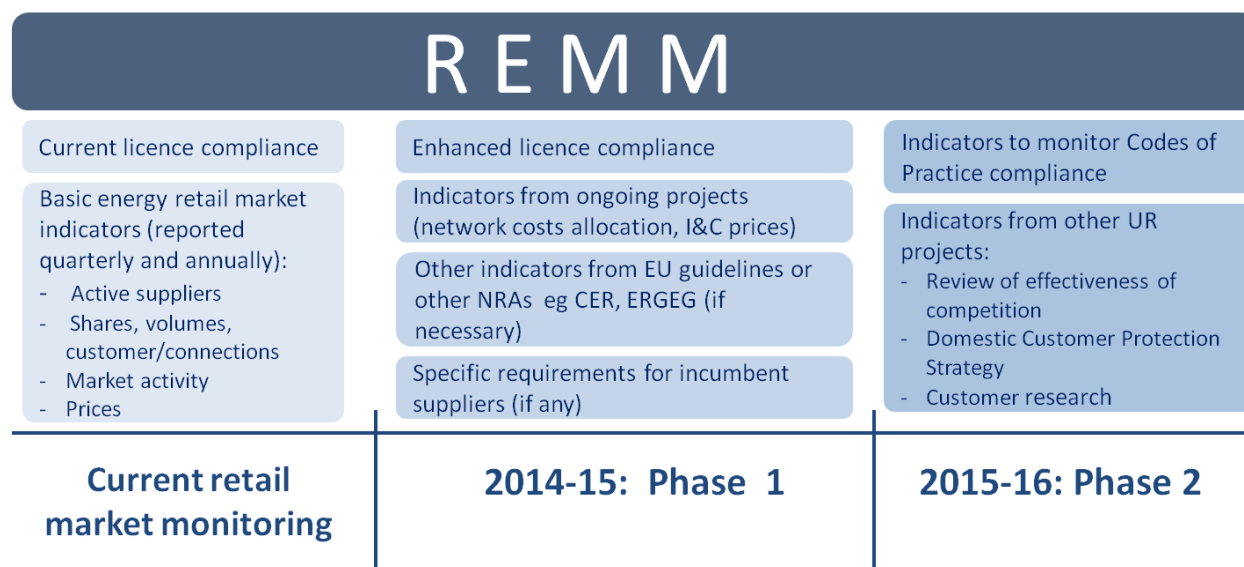
This will be developed in 2015-16. Phase 2 of REMM will include:

- Indicators to monitor the new Supplier Codes of Practice which will be in place in early 2015. The codes of practice minimum standards guidelines (and subsequent monitoring requirements) are currently under consultation. These indicators will be integrated into REMM when suppliers have developed their new Codes.
- Indicators from other UR 2014-15 flagship projects (e.g. the Review of Market Effectiveness and the Consumer Protection Strategy).
- Indicators resulting from any consumer research that the UR may consider necessary.

Post phase 2

It must be noted that energy markets are not static and the regulatory environment is changeable. Therefore, we intend REMM to be a flexible monitoring regime that is adapted as the markets evolve. In the medium to long term the UR will keep the monitoring indicators under review and make any changes as necessary.

An overview of the development of the REMM framework is shown below.



6. Key milestones for Phase 1

As mentioned above we intend to work collaboratively with suppliers during the development of REMM. We understand that suppliers may have to make changes to internal processes and IT systems in order to fulfil their requirements under REMM. In order to ensure that we receive accurate and useable data we plan to include a testing period in our implementation timeline. We expect suppliers to have their systems ready to begin collecting all required data by October 2015. For the period October to December 2015 we will expect suppliers to submit test data.

This approach provides opportunities for suppliers to test their systems and resolve any data quality or IT system issues which arise. It also gives the UR an opportunity to review the consistency of the data across suppliers and identify potential data problems/outliers.

We aim to be in a position to request the first full annual data submission from suppliers for year ending 31 December 2016, with submissions to be returned February 2017. We envisage that REMM will focus on a single annual return. However for a select set of indicators (to be decided as part of the process) there will be quarterly submissions in order to continue with our current quarterly monitoring regime. These quarterly submissions will be required for each of the quarters of 2016, and each quarter thereafter.

There are a number of key milestones which must be met in order to keep to the timeframe detailed above. It is important that suppliers work with us throughout the development of REMM so that any changes required to internal processes and/or IT systems can be in place to meet the deadline.

The key milestones for Phase 1 are as follows:

June 2014

- Publication of briefing note
- Stakeholder briefing session

End June – End September 2014

- Development of consultation paper including definitions for indicators
- Development of templates for information submissions
- Bilateral meetings with suppliers – we intend to speak to suppliers on a one-to-one basis in order to get early feedback as we develop our monitoring indicators and templates
- Consultation paper published at end of September

October – December 2014

- Consultation period
- Workshop with all stakeholders
- Consultation responses to be submitted by stakeholders at end of December

February – March 2015

- Analysis of consultation responses
- Development of final decision paper and templates
- Publication of decisions
- Workshop with suppliers to discuss implementation requirements

Summer 2015

- Suppliers update internal processes and IT systems

October 2015 – December 2015

- Supplier data collection begins
- Test runs to test systems and check data accuracy

January 2016 – December 2016

- First full year of data collection

February 2017

- Submission of first annual return

7. Conclusions

One of the statutory duties of the UR is to monitor energy markets effectively and ensure high levels of consumer protection. The implementation of REMM will enable us to collect adequate information to determine how well consumers in the NI energy markets are being protected. This information will then be used to: ensure suppliers are complying with their licences; drive policy decisions which will increase consumer protection where necessary; and facilitate the active engagement of empowered consumers in the NI energy markets.

REMM is both a challenge and an opportunity for suppliers and us alike. It will be a collaborative project which will require the input of suppliers and other stakeholders in order to develop an effective monitoring framework. REMM will also provide a transparent and consistent method of data submission which will enable suppliers to provide data in a standardised and comparable format within prearranged timeframes. This will facilitate suppliers in their resource planning and data production and management. We look forward to engaging with suppliers and other stakeholders throughout this project to deliver an effective monitoring framework which benefits all consumers.