POLICY AND REGULATION **NEWSLETTER**

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

We know running a business is challenging at the best of times. And we recognise that the current energy market conditions make it even harder. The energy market is on a transition to become smarter and more flexible, which will change the way you engage with the energy your business uses.

We've worked with our regulatory, government policy and energy economics experts to summarise some of the 'hot topics' in the energy market right now. But if there are subjects or topics you'd like us to cover, please send your feedback to info@sseenergysolutions.co.uk.

COUNTING THE COST OF SUPPLIER FAILURE

Since 1 September 2021, 27 energy companies have ceased trading, leaving over two million customers dependent on the 'Supplier of Last Resort' (SoLR) process to maintain their supplies while Ofgem moved them to a new supplier. This included three non-domestic energy suppliers, MA Energy, CNG and Xcel Power, who collectively supplied around 40,000 sites.

Within the energy industry, there are several mechanisms in place to recover the bad debts of the failed supplier from the remaining suppliers. This is designed to reduce the impact on other market participants (e.g. generators). This includes the low carbon policy schemes (e.g. the Renewables Obligation, the Feed-in Tariff Scheme) and other costs incurred by the SoLR appointed by Ofgem. In some cases, these costs will be passed to consumers, either directly by suppliers, or indirectly through increases in charges levied by gas transporters or distribution network operators.

However, a change to the gas industry codes is expected to save the non-domestic gas sector more than £100 million in 2022/23.

This change to industry processes means that the costs incurred by the Ofgem-appointed SoLR (e.g. the cost of protecting domestic credit balances) will now be allocated to the market sector in which they occur. In turn, the non-domestic sector won't incur any costs for gas supplier failures in the domestic sector, and vice-versa. Over the past two years, SSE Energy Solutions has been working to address this cross-subsidy with the support of other non-domestic suppliers and has engaged with Ofgem directly to secure this positive outcome for non-domestic consumers.

Further action is being taken to reduce the impact of future supplier failures.

In conjunction with the UK Government, Ofgem is considering further steps to reduce the impact of supplier failure. In December, Ofgem published its action plan on financial resilience, setting out the short-term actions being taken to address some of the weaknesses in the energy market. This includes market-wide stress testing and further consideration of the options available to suppliers to protect their Renewables Obligation (RO) contribution or domestic credit balance position.

The RO is the largest low carbon policy scheme. Unlike other low carbon policy schemes, suppliers only need to settle this once per year and don't need to secure this against the risk of default by posting collateral. This has led to a shortfall of more than £400m in the past four years.

But, there remains uncertainty regarding Bulb.

Bulb Energy, with 1.7 million customers, was placed in Special Administration in November 2021. The objective of this administration was to ensure energy supplies continue at the lowest practical cost, pending the rescue of Bulb or the sale of some (or all) of the company's assets. Any costs that aren't recovered from this process may be recovered through an industry levy that suppliers pay. However, the exact timing and methodology are likely to be subject to a consultation once there is more certainty on Bulb's future.

Looking ahead to the future, the market continues to undergo a rapid pace of reform on the journey to net zero.

SWITCHING SUPPLIERS QUICKER **THAN EVER BEFORE**

In 2015, Ofgem published its decision to move to next-day switching as the regulator wanted domestic consumers to be able to quickly and reliably switch supplier. This Switching Programme, expected to go live in July 2022, will lead to gas and electricity processes being aligned for the first time, resulting in a new 'Central Switching Service'.

Initially, consumers will be able to submit a request to switch and be with that supplier within five working days. However, the intention is that this will change and become quicker. After processes and systems become embedded, a domestic consumer should be able to submit a request to switch and be with that supplier by midnight the following working day. And it'll be two working days for a non-domestic consumer.

Ofgem will regularly review the readiness of all market participants within the programme to ensure there is minimal risk to the July 'go live' date.

The Switching Programme is just one initiative within a broader set of reforms that aim to encourage consumers to engage with the energy market and to improve their experiences of doing so.

TAKING BACK CONTROL OF YOUR **ENERGY ACCOUNT**

The Smart Metering Implementation Programme is a government project which aims to bring next-generation smart meters to Britain's homes and small businesses. Moving to a smarter energy system is part of the UK's transition to a low-carbon economy. And smart meters play a key role in helping the country tackle the long-term challenges of achieving an affordable, secure and sustainable energy supply for the future.

Introduced in January 2022, a new target-based framework means suppliers need to complete a minimum number of smart installations per year until 2025.

With the non-domestic market already 49% of the way there, this framework is a renewed focus on maximising rollout activity to ensure as many customers as possible take advantage of what smart meters have to offer.

Smart meters provide near real-time access to data, helping consumers translate everyday actions into potential savings. If you want to find out more about how a smart meter can help you power change, you can visit our **website here**.

GETTING READY FOR HALF HOURLY **SETTLEMENT**

In August 2021, Ofgem announced its decision on Market-wide Half Hourly Settlement, kicking off an industry programme to deliver the changes needed by October 2025. However, there's expected to be a one-year transition period commencing in 2024.

Half Hourly Settlement means suppliers need to settle all electricity customers on actual half hourly data, instead of using standard industry profiles which make assumptions about when customers consume energy.

With electricity demand expected to increase in future decades (in line with the anticipated growth in electric vehicles and electrification of heat), this programme should incentivise suppliers to offer more products that reflect the real-time costs of supply. It should also reward customers for responding to price signals, reduce market-wide balancing costs and minimise the need for more costly network reinforcement.

The industry programme, led by Elexon, the Balancing and Settlement Code administrator, is expected to publish its first baselined plan by 29 July.

INCENTIVISING THE PRODUCTION **OF GREEN GAS**

The Green Gas Support Scheme (GGSS) is a government initiative that provides financial incentives to produce biomethane from new anaerobic digestion plants to increase the proportion of green gas in the gas grid.

During the peak years of production, biomethane plants incentivised by the GGSS are forecast to produce enough green gas to heat around 200,000 homes.

The GGSS is funded by the Green Gas Levy (GGL) which is paid for by energy suppliers, according to the number of meters they supply. The levy will be collected from energy suppliers from 1 April 2022 and will be set annually by the government.

GREATER PROTECTION FOR MICROBUSINESS **CONSUMERS**

Ofgem concluded its strategic review of the microbusiness consumer market in March 2022. They've implemented new obligations that should improve protections for microbusiness consumers.

Among these measures is a new requirement for suppliers to ensure energy brokers confirm their fees to consumers before the contract is agreed.

Consumers now also have the right to bring complaints about broker conduct to an independent dispute resolution provider. Plus, consumers now no longer need to submit written termination notices to suppliers ahead of their contract end date before changing suppliers.

These changes will come into force in October and December this year.

NETWORK CHARGES AND MARKET DESIGN **FOR NET ZERO**

Ofgem is currently considering substantial changes to network charges including DUoS, TNUoS, BSUoS, and how these interact with flexibility markets. It is not yet confirmed what these changes will be, but we've outlined some likely possibilities below.

DUoS

Substantial changes to locational DUoS charges could encourage customers to be more flexible to accommodate a growing demand on networks from EVs and electric heating. The changes could include larger differences in charges across different locations. It's expected that some locations will become cheaper, while others could become substantially more expensive.

Ofgem confirmed that the new charges should be implemented no earlier than 2023.

TNUoS

Changes to TNUoS charging could lead to smaller customers paying Triad charges. In addition, Triad charges could become averaged across a larger number of periods, with separate charges for peak and off-peak periods and for winter and summer months.

Locational differences in charges across the UK are also likely to change, which could lead to northern regions that already have a surplus of renewable energy benefiting from cheaper charges.

For the longer term, Ofgem is considering more wider-reaching changes that could include making network charges more predictable. Alternatively, TNUoS could be replaced with local markets, where customers face wholesale prices that vary depending on the locational marginal price of generating electricity at their particular location for each half hour.

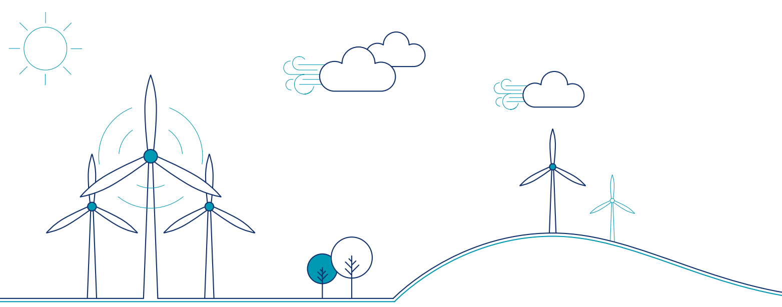
As we transition to net zero, policy makers will need to consider the trade-offs between stable price signals that customers can respond to, versus improving accuracy at the risk of volatility and uncertainty. Alternatively, they may seek to prioritise fairness and equality across the UK by socialising costs and more coordinated planning of the energy system. All of these will be subject to consultation and debate in the weeks, months and likely years to come.

BSUoS

Ofgem is currently working on two changes to BSUoS, which could be implemented from April 2023.

The first change was recently confirmed and involves collecting BSUoS wholly from final demand, which could roughly double the cost of BSUoS paid by customers. However, this increase in customer cost would be cancelled out by a cheaper electricity unit rate.

Secondly, BSUoS may become a fixed charge which is set in advance to provide customers with more predictability and better notice of changes.



WORKING TOWARDS **NET ZERO**

The energy market is evolving to become smarter and more flexible. Consumers are expected to use significantly more electricity in the coming decades as we transition towards electricity for our heating and transport.

Many of the changes discussed in this newsletter are designed to contribute towards creating a market that engages, educates, and empowers consumers to take action that will help realise the UK's ambition to be net zero by 2050.

To find out more about how we can help your business on this journey, just get in touch with your SSE account manager. If you're not sure who your account manager is, please email **info@sseenergysolutions.co.uk**.

Mark Keeling
Sales Director

FOR A BETTER WORLD OF ENERGY

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

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