By e-mail to: switchingprogramme@ofgem.gov.uk

Rachel Clark
Ofgem
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26 July 2019

Dear Rachel,

Switching Programme and Retail Code Consolidation: Proposed changes to licences and industry codes – ELEXON response

We welcome the opportunity to comment on the proposed modifications to regulation and governance around Ofgem's Switching Programme.

As you are aware, ELEXON is the Code Manager for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC and accompanying systems that support the BSC. This includes responsibility for the delivery of balancing and imbalance settlement and the provision of assurance services to the BSC Panel and BSC Parties. We manage not just the assessment, but also the development, implementation and operation of changes to central systems and processes.

In addition, through our subsidiary, EMR Settlement Ltd, we are the Electricity Market Reform (EMR) settlement services provider, acting as settlement agent to the Low Carbon Contracts Company (LCCC), for the Contract for Difference (CfD) and Capacity Market (CM). EMR services are provided to the LCCC through a contract and on a non-for-profit basis.

The views expressed in this response are those of ELEXON Ltd, and do not seek to represent those of the BSC Panel or Parties to the BSC.

We summarise our overall considerations in the covering letter below. Furthermore,

- Appendix 1 contains our detailed responses to questions on REC Governance Arrangements (1.3, 1.4, 1.5)
- Appendix 2 contains our detailed responses to questions on MPAS (Meter Point Administration Service) governance (4.3, 4.4)

Main considerations:

1. **Methodology to define REC Manager functions and REC Manager scope of services needs to achieve a careful balance**

We support the methodology outlined in the consultation for setting up the REC Manager functions and services. We note that the approach is akin to the BSC set up for the delivery of services by BSC agents. We believe that this approach is optimum, when compared to other options that could have been proposed, and that the approach proposed in the consultation document should aid

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transparency, accountability and provide for an end-to-end service provision. However, we would suggest that there are a number of aspects where detailed consideration would be beneficial:

- The methodology needs to achieve a balance between transparency, accountability and an appropriate degree of discretion and flexibility for the REC Manager to deliver the services required;
- It is critical that clear and pre-agreed objectives are set for the REC Manager to enable it to act in an impartial and even-handed manner when progressing changes to the REC Manager's service schedule.

With regards to the scope of services, we would like to note that the REC Manager would probably need to deliver other services in addition to the ones listed in the consultation: for example, dispute management and resolution, which are likely to be important. We offer further considerations on the additional services in our response to Q1.4.

2. Procurement of REC Manager services on an end-to-end basis will bring benefits to market participants and consumers

It appears that the REC Manager role may be divided and procured from different organisations in lots. However, we strongly believe that keeping the services bundled, which means placing an end-to-end service contract with one service provider, will deliver tangible benefits to market participants and consumers. An end-to-end approach to its services will allow the REC manager service provider to develop deeper expertise in both: market arrangements and underlying systems, leading it to provide more integrated change service and support.

This will be increasingly important in the future as the number of new, less experienced/resourced market participants grows. At the same time, existing companies are reducing their regulatory functions and, therefore, will have a reduced capacity to interface with the Code arrangements.

In addition, the consultation suggests that the REC Manager will play a more proactive role not only for its own services but also in driving cross-code coordination. We believe it will be critical for the REC Manager to have the breadth of integrated services to successfully deliver to the high standard expected by Ofgem, RECCo and the industry.

We provide further details and considerations for Ofgem to consider in the Appendix 1. For these reasons, we believe there is benefit in a deep and broad REC Manager role to support industry rather than many shallow and narrow separate service providers.

3. Transferring MPAS governance to the BSC can bring additional value and help avoid fragmentation of registration solutions

We have recently been exploring the potential for consolidated code governance arrangements and a grouping of like and corresponding activities into common Codes. We have, therefore, considered MPAS in detail against the consolidation agenda and concluded that the BSC is the most appropriate Code for MPAS governance to reside. The reasons for this assessment are set out below:

- Considering Distribution SLC 18 and the requirement to have a MPAS in place, it is clear that the prime objective for MPAS is to provide "information for settlement purposes", as per Appendix 1 Schedule of Services A2[1]
- There is already a close alignment of the MPAS data items to settlement processes. Almost half of the non-retail data items (22 out of 46), specified under MPAS (Schedule 2 of MRA), are exclusively related to settlement processes. A further third (13 of 46) are data items that present material interest to settlement. This corroborates the fact that the prime objective of MPAS is to facilitate electricity settlement, with 76% of data items used for or of relevance to settlement.

We set out details of our thinking and reasoning in full under Appendix 2.

We have welcomed the opportunity to assist Ofgem in understanding the BSC arrangements and hope that this has helped with Ofgem's thinking on the set up and management of the REC Manager. I would like to take this opportunity to assure you of our continued support, should there be elements of the BSC process or my team's wider energy market experience, which may be able to provide further insight.

If you would like to discuss any areas of our response, please contact Angela Love, Director of Strategy and Communications on 020 7380 4156, or by email angela.love@elexon.co.uk or Alina Bakhareva, Strategy and Public Affairs Manager on 020 7380 4160, or by email at alina.bakhareva@elexon.co.uk.

Yours sincerely,

Mark Bygraves
CEO, ELEXON

List of enclosures:
Appendix 1 – Detailed responses to questions on REC Governance Arrangements (1.3, 1.4, 1.5)
Appendix 2 – Detailed responses to questions on MPAS (Meter Point Administration Service) governance (4.3, 4.4)

[1] https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Distribution%20Consolidated%20Standard%20Licence%20Conditions%20-%20Current%20Version.pdf

Appendix 1 – Responses to questions on REC Governance Arrangements (1.3, 1.4, 1.5)

1.3: Do you consider that the methodology as set out above is appropriate?

We support the methodology outlined in the consultation for setting up the REC Manager functions and services. We note that the approach is akin to the BSC set up for the delivery of services by BSC agents.

Under the BSC, BSC Agents are required to deliver services in accordance with the relevant BSC Service Descriptions and the BSC Service Descriptions are called 'Code Subsidiary Documents', similar to what is proposed for the REC. However, these service descriptions can also be amended by industry participants through the BSCP40 change process during the contract term.

In principle, this provides an appropriate level of transparency to the industry and has worked well. We believe that the REC could also introduce such an approach to afford REC Parties a degree of influence over the services to be delivered and provide transparency. We believe that this is a practical approach and should aid transparency, accountability and provide a service, which is responsive to REC Parties needs.

However, given our experience of operating under the BSCP approach, we would suggest that there are a number of factors that should be considered, when establishing the approach that the REC will take:

- **The methodology should not be prescriptive** - we agree with Ofgem's assertion that in order to deliver the key code manager services described in paragraph 1.18, the REC Manager will need to be able to deploy subject matter expertise. We believe that this expertise will be most effective where the REC Manager has an appropriate degree of discretion and flexibility, particularly in the context of the REC Manager's overall mission to "identify and deliver strategic change that benefits consumers, competition and the operation of the market". Consequently, the methodology will need to be carefully constructed to ensure that it does not impose unnecessary constraints on the REC Manager's ability to deliver on this mission. Our experience under the BSC shows the benefit of principles and a clear purpose (the 'what'), as opposed to unnecessary detail on the methodology (the 'how'). Including detailed methodology can hamper future delivery as methods and techniques change, by requiring a formal change to the code;

- **Empowered REC Manager** - Given that the REC Manager will be administering the REC change process, any change to the REC Manager's service schedule will presumably be administered by the REC Manager. It will, therefore, be crucial that the REC Manager is allowed to act in an impartial and even-handed manner when progressing such changes;

- **Change process impacts on the REC Manager** - The change process will have to be robust to ensure that any changes to the REC Manager's service schedule still allows the REC Manager to deliver its objectives independently and impartially. The change process will also need to take into account any impact assessment delivered by the REC Manager. For example, any change to the REC Manager services that will have a cost impact for funding parties will need to be transparent.

1.4: Do you have any comments on the scope of services?

We agree that all of the areas referred to in paragraph 1.18 will need to be delivered by the REC Manager.

In addition, it is likely that the REC Manager will need to deliver other services in order to support the RECCo. For example, the REC Manager will need to provide strategic planning services, supply chain management (in addition to service management) and project management. Other services may already be intended to be covered by those listed, but for completeness we highlight that dispute management and resolution is likely to be a necessary service, as will Reporting and Analysis, along with Training and Support for users. Performance Assurance is also a key service.

Areas of functional expertise, don't necessarily need to be specified in any detail in the scope of services but it is important to note that, in order to meet its objectives, the REC Manager will need a wide range of support capabilities e.g. communications, procurement, finance, IT and security, legal etc.

1.5: Do you agree with our outline proposals on the set-up of the REC Manager?

We agree that the REC Manager should be appointed with sufficient time to prepare for the substantive expansion of REC in April 2021.

There are several references in paragraphs 1.16-1.19 and elsewhere to RECCo undertaking procurements with the implication that the REC Manager role may be divided and procured from different organisations. Whilst we agree this depends on 'what is most effective, economic and efficient,' ELEXON has experience of splitting services amongst providers and of bundling services together. Our observations of these two models are outlined below:

- **Splitting services amongst providers** may enable more providers for specific parts to come forward, which appears beneficial. However, this then requires the client to be the integrator of those services. Whilst this is feasible and relatively risk free where the services are unconnected, if the services are dependent upon each other, it can leave the client in the middle between providers during any disputes or service issues. Therefore, the client, in this case RECCo, needs to be appropriately resourced with relevant expertise to manage the myriad of contracts, interactions and providers. Ultimately, this adds additional cost to the client organisation (RECCo) and it moves it from a 'thin' to 'thick' model.
- **Keeping the service bundled** is likely to deliver benefits to the code customers (and therefore, ultimately, to the consumer) through the provision of an end-to-end service, as it removes unnecessary hand-off points and keeps understanding in the same organisation, which is providing the REC Manager services.

  This would enable the REC Manager service provider to develop deep expertise not only in the market arrangements but also in the underlying systems and services, which would allow it to provide a more integrated change service as well as support and, even lead, market developments and innovation. Given that Ofgem wishes the REC Manager to play a more proactive role, we see a bundled service model as providing a greater potential for ensuring that the REC Manager has the breadth of service necessary to successfully deliver a wider REC manager role.
- **Attracting bidders may be difficult** if the services are too fragmented, as the contract opportunity can become less interesting to potential providers, both in terms of contract value,

but also due to the hand offs and contractual relationships that they would need to navigate in delivering the services.

- **Energy Codes Review** - the current Ofgem/BEIS Codes Review has outlined concerns about the fragmentation and number of code administrators and bodies. Therefore, we believe that it is important to understand the benefits and dis-benefits from a user and consumer perspective, of having a thick RECCo overseeing a number of contracts, or a thin RECCo that has outsourced activities to a more encompassing REC Manager.
- **Providing the opportunity for consumers to benefit from synergies** occurring within the Code Manager will be important. Where activities are outsourced to an experienced and existing Code Manager, RECCo and industry will want to ensure that the benefits of synergies that arise within the Manager accrue to industry and, ultimately, consumers.

As regards Paragraph 1.22, we were unsure how feasible it would be for the Performance Assurance Board (PAB) to be responsible for managing parts of the REC Manager contract 'that RECCo may delegate to it'.

We are unsure of the feasibility of what is proposed in respect of what the PAB may be able to do in respect of performance of the REC Manager because

- Service contracts are typically confidential between the parties who are signatories to them and, therefore, we are unclear what visibility the PAB would have of the contract terms, beyond the scope of work. Therefore, PAB will not know what levers, if any, exist to manage the REC Manager's service performance. We would highlight that paragraph 1.17 suggests that the contract will be confidential between RECCo and the REC Manager, which would seem to corroborate our concerns over the feasibility of what is proposed.
- In addition, in respect of the make-up of the PAB it may be counterintuitive to have PAB overseeing the REC Manager performance, when REC is responsible for monitoring the performance of the REC Parties, as ideally you would want to ensure that the REC Manager cannot be influenced by the Parties. We expect that some of the Parties employees will be on the PAB, hence our concern in this respect.

We do, however, agree that PAB, as a relevant stakeholder for REC Manager services, along with other bodies such as the REC Panel, should be encouraged to comment on and even assess the service of the REC Manager, reporting their conclusions to the RECCo Board. This would be in addition to providing assurance to the RECCo Board (and industry) that the REC Manager is complying with the requirements of the REC and is aiding the PAB in holding REC Parties to account on their performance and compliance with the REC.

Appendix 2 – Responses to questions on MPAS (Meter Point Administration Service) governance (4.3, 4.4)

4.3: Which option outlined above do you think is best suited to govern MPAS (as defined above) once the MRA has closed, and why?

We have recently been exploring the potential for consolidated code governance arrangements and a grouping of like and corresponding activities into common Codes. We have, therefore, considered MPAS in detail against the consolidation agenda and concluded that the BSC is the most appropriate Code for MPAS governance to reside. The reasons for this assessment are set out below:

- Considering Distribution SLC 18 and the requirement to have a MPAS in place, it is clear that the prime objective for MPAS is to provide "information for settlement purposes", as per Appendix 1 Schedule of Services A2[2]
- There is already a close alignment of the MPAS data items to settlement processes. Almost half of the non-retail data items (22 out of 46), specified under MPAS (Schedule 2 of MRA), are exclusively related to settlement processes. A further third (13 of 46) are data items that present material interest to settlement. This corroborates that the prime objective of MPAS is to facilitate electricity settlement, with 76% of data items used for or of relevance to settlement.

What MPAS does

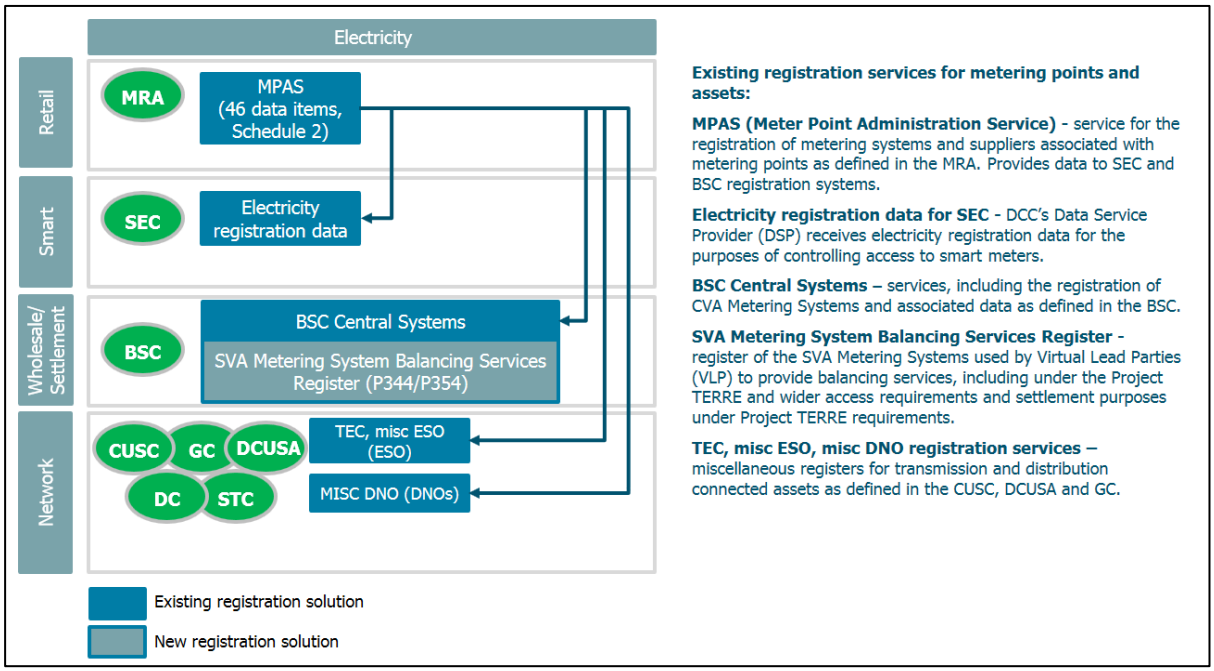
The scope of MPAS service is to register each metering point and the supplier associated with that metering point[3]. MPAS interfaces with other industry registration systems and codes:

- The BSC Central Systems access MPAS data for settlement purposes,
- MPAS provides data for SEC (Smart Energy Code) under the SEC Section E,
- MPAS data is also used under DCUSA (The Distribution Connection and Use of System Agreement) in DUoS (Distribution Use of System) charges calculations

[2] https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Distribution%20Consolidated%20Standard%20Licence%20Conditions%20-%20Current%20Version.pdf

[3] The scope and nature of the MPAS service is defined in Distribution SLC 18 ('Provision of and charges for Metering Point Administration Services')

Picture 1. Existing registration services (meter and asset)



Source: Elexon

MPAS contains 46 non-retail data items[4]. We note that 22 of these 46 data items are *exclusively* related to Settlement, and the BSC has a material interest in a further 13 of the remaining 24 items[5]. (Picture 2. Analysis of MPAS Data Items).

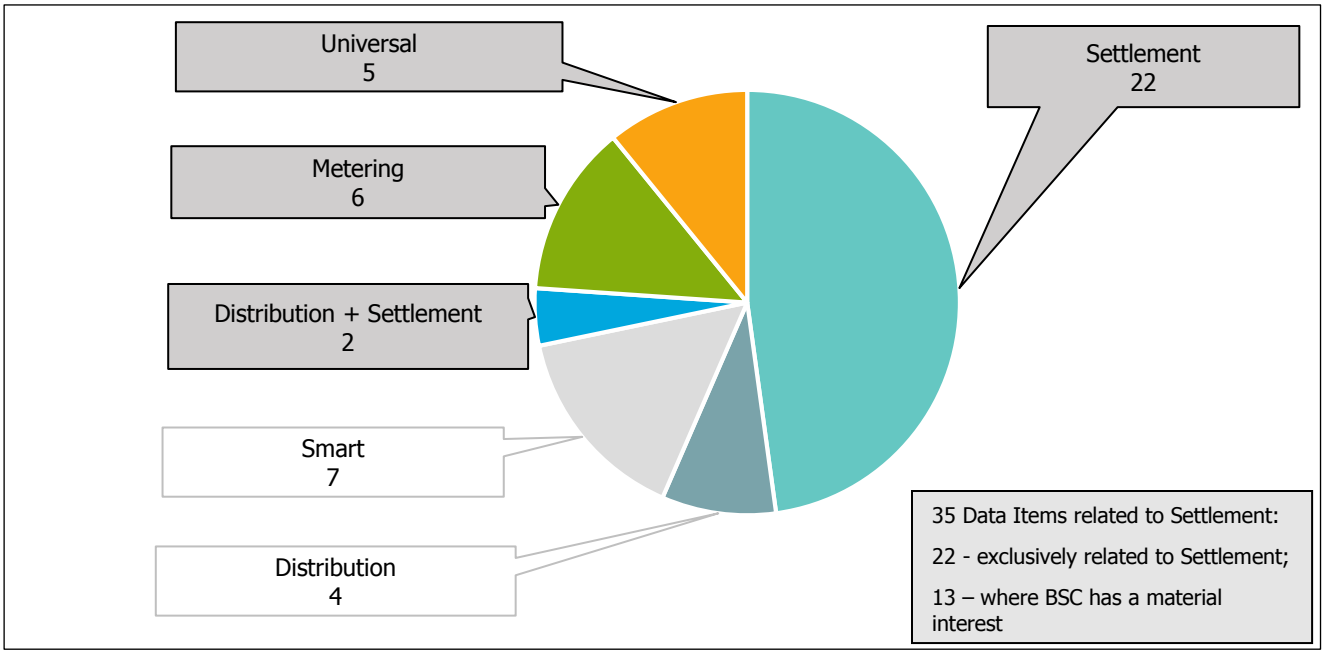
Based on the close alignment of the MPAS data items to settlement processes, we believe that it will be prudent to bring in MPAS governance under the BSC in order to have the consolidated code governance arrangements over like and corresponding data items.

Under the BSC, arrangements can be made to ensure that all other Codes and parties who currently have an interest/say in MPAS governance continue to do so.

[4] MRA (Master Registration Agreement v12.2), Schedule 2

[5] These 13 items include 5 'universal' items, 2 items related to Line Loss Factor Classes, and 6 items related to Meter Asset information introduced by CP1515 'Meter Operator Agents to send Metering System Data to SMRS instead of ECOES for the Faster Switching Programme'

Picture 2. Analysis of MPAS Data Items.



Source: MRA v12.2, retrieved 22 July 2019. Analysis: ELEXON.

Additional Considerations: the changing requirements for registrations

We believe that it is worth highlighting that Industry metering point registration processes are becoming much broader and more complex than the scope defined under Distribution SLC 18, the Licence Condition which requires the Distribution companies to set up MPAS. From the balancing and settlement perspective, driven by a number of ongoing and upcoming changes, information on meter points need to include:

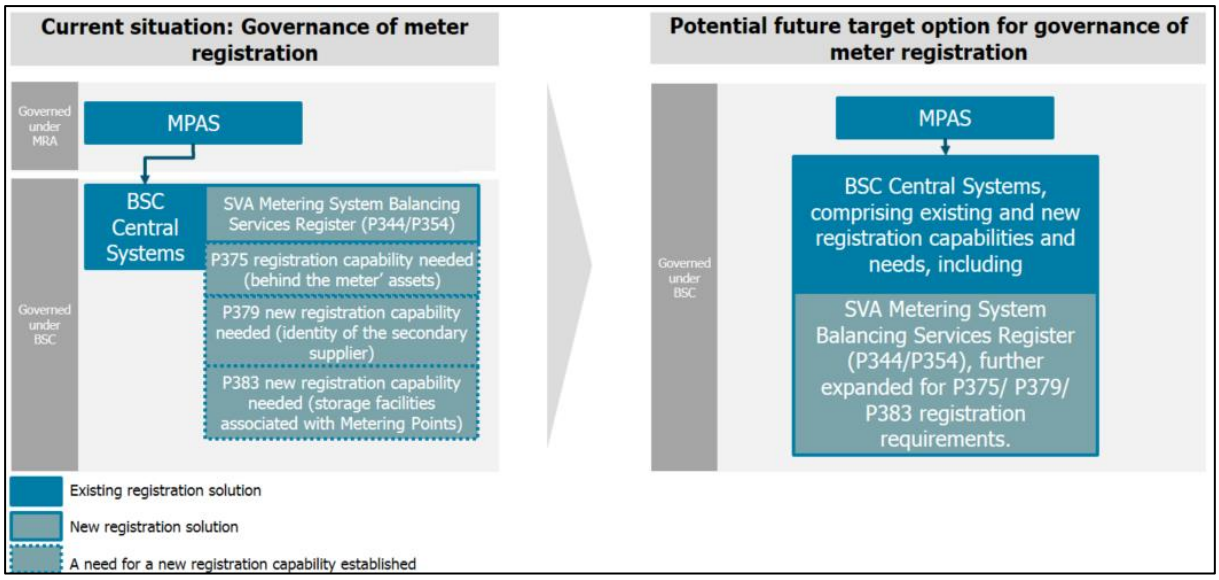
a) Other parties associated with a metering point, namely
   a. *Virtual Lead Parties*[6] - following BSC Modification P344 to associate a VLP (e.g. aggregator) with a metering point
   b. *Secondary suppliers*[7] - following BSC Modification P379 to enable multiple suppliers to supply electricity at a single meter without needing a prior agreement between the respective parties.

b) 'Behind the meter' assets
   a. *storage facilities* associated with metering points to support charging under the CUSC[8]
   b. *other 'behind the meter' assets*, which are active or aiming to be active in the Balancing Mechanism[9]

[6] BSC Modification P344 'Project TERRE implementation into GB market arrangements'
[7] BSC Modification P379 'Multiple Suppliers through Meter Splitting'.
[8] BSC Modification P383 'Enhanced reporting of demand data to the NETSO[8] to facilitate CUSC Modifications CMP280 and CMP281'.
[9] BSC Modification P375 'Metering behind the Boundary Point'.

Following approval by Ofgem of BSC Modification P344/P354, ELEXON has introduced a new registration service for VLPs. With other inflight modifications (P379, P383 and P375), the P344 register will expand to include new types of parties and new types of assets that would be looking to provide balancing services. Therefore, whilst MPAS holds some asset and registration information, the industry is evolving and requires more parties (such as VLPs and multiple Suppliers) and connected assets (e.g. distributed generation) to be registered. See Picture 3.

Picture 3 – Potential future target option for MPAS governance



Source: Elexon

There could be an option to bring in the MPAS data services into the BSC, using the initial step of introducing MPAS governance into the BSC. This would create a single, more comprehensive meter and asset registration service that would act as a 'single source of truth' to a range of existing and new industry participants.

Additional benefits of the proposed approach include:

- A wider range of market participants will be able to benefit from and contribute to the development and operation of a combined registration service, including generators and Virtual Lead Parties, who are already parties to the BSC
- Furthermore, the BSC could support the cost recovery by Distributors for the provision of the MPAS service to the wider wholesale market through a charging mechanism already established for new types of participants
- Consolidating registration services will reduce the number of hand-offs and links to be maintained between existing and developing registration solutions
- Consolidating registration services is also aligned with the Energy Data Taskforce's recommendation on developing "a sector wide Asset Registration Strategy… to curtail the proliferation of standalone registration platforms" and therefore bringing MPAS under BSC governance would address a key Energy Data Taskforce recommendation

4.4: Do you have serious concerns about the suitability of any of the options for the future governance of MPAS, outlined above?

Yes. We believe that hosting MPAS governance provisions under other codes presents a risk of creating fragmented registration solutions and that such a move would not recognise that the main function of MPAS (as specified in the electricity Distribution Licence) is to provide "information for settlement purposes".

We believe fragmenting registration data, by using a code other than the BSC will result in an overly-complex and hard to scale inferior solution, which will make it more difficult for industry processes to support the ongoing transformation of the energy sector.

In contrast putting MPAS under the governance of the BSC would allow for the development of a more industry-wide 'joined up' registration process, to the benefit of the existing and new industry participants and provide an option for expansion of both asset types and parties associated with the metering points.

We would therefore urge Ofgem to take the decision to move MPAS governance to the BSC or if you do not to make sure that there is a route for MPAS to be changed, when and if the BSC is amended. In particular where the change relates to new classes of party, which is "an appropriate person to receive data for Settlement Purposes".