

ELEXON

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

Rachel Clark
Ofgem
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Dear Rachel,

The Retail Energy Code – proposals for version 1.1 – Elexon response

Thank you for the opportunity to comment on the proposed modifications to regulation and governance arrangements around Ofgem's Switching Programme and Retail Code Consolidation (RCC).

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.

In our response we are focusing mainly on the issue of assurance of metering systems and agents. The consulted transfer of metering provisions to the REC from the BSC should ensure practicality and avoid any difficulty for the industry. At the same time, coordination between the codes in distinguishing what provisions will be retained and assured under the BSC would be an essential step to undertake within the early days of drafting the Retail Code Consolidation (RCC).

We would also like to bring to your attention our thoughts about the RECCo strategy. It is unclear at this stage if RECCo intend to remain a 'thin' organization without substantial organizational structure. If this is the case it presents uncertainties in how RECCo would administer the metering functions currently part of the BSC. Further information on the

future organization of RECCo would aid any consideration of the efficiency of proposals. This overall strategy is central to the development of subordinate strategies, such a digital policy.

If you would like to discuss any areas of our response, please contact Amanda Rooney, Strategy and External Affairs Manager on 020 7380 4121, or by email at amanda.rooney@elexon.co.uk.

Kindest regards,

Angela Love
Director of Future Markets and Engagement

2. Company and Code Governance

“Document precedence”

- 1.1 Before we proceed with our responses to the questions under this section we would like to touch on points 2.26-2.28 of the consultation regarding Document precedence.
- 1.2 The consultation document proposes that for any external documents that might conflict with the prevailing REC documents there needs to be a line of precedence as to what documents can be considered in breach of the REC. The consultation also states that these documents are ‘of equivalent or greater status’. We believe that there needs to be a consistent view between the RECCo, REC Parties and other industry stakeholders on which documents have equivalent or greater status than the REC document and that this view should be published and shared for clarity.
- 1.3 We support the fact that any Party who finds themselves subject to conflicting requirements between the REC and another document will not be in breach of the REC until the conflict has been resolved. However, should the Party/Parties be subsequently found to be in breach of the REC requirements, we believe they should be given time to resolve their position. We also recognise the priority given to the REC should the other conflicting document does not have equivalent or greater status than the REC. Section H of the BSC includes a procedure in respect of resolving conflicts between the BSC and the Grid Code, for example, without giving either document priority. We suggest that this might be an approach that the REC could emulate.
- 1.4 We would like to stress that there is a need for a clear distinction between documents i.e. legislation, licences and industry codes to show which have equivalent or greater status than the REC. We would recommend that overlaps in provisions between the REC and other industry codes should be avoided.
- 1.5 These issues could be lessened with the digitization of industry codes if a single platform were to be used.

Q2.1: Do you have any comments on the process for appointing additional RECCo directors?

- 1.6 According to the consultation document, we acknowledge that your proposed process for appointing additional RECCo directors mirrors the equivalent process under the BSC.

Q2.2: Do you agree that MEMs should be party to the REC?

- 1.7 Yes. This will have the benefit of strengthening the assurance of MEM activities through more direct accountability, whilst hopefully retaining accountability to the supplier who appoints the MEM for individual Metering Points. It will also enable MEMs, as experts in metering, to help shape future metering requirements.
- 1.8 Section 2.11 refers to Ofgem’s “intention to bring all of the metering Codes of Practice (CoPs) under the governance of the REC” including the MAMCoP, AMICoP, MOCOPA, ASPCoP and SMICoP. Can we assume, by their omission,

that this does not include the metering Codes of Practice under the BSC? Section 2.12 notes that codes of practice listed in 2.11 “share a common theme insofar as they document regulatory standards and/or best practice to be applied by metering agents when undertaking works at a consumer’s premises”. This is not true of the BSC metering codes of practice, which do not set out any obligations on metering agents. The BSC obligation is on the Registrant to ensure that energy is metered by equipment that meets the relevant CoP. The BSC CoPs are technical specifications for Metering Equipment and are more akin to the Smart Metering Equipment Technical Specifications (SMETS) under the Smart Energy Code (SEC) which are not being incorporated in the REC. The scope of the REC is limited to those Metering Points that are registered in the Central Switching Service and so will exclude the metering of transmission-connected sites and the larger distribution-connected sites registered centrally by BSCCo under the Central Volume Allocation (CVA) arrangements. Therefore the CVA MOA role will remain under BSC governance, which we support. The BSC CoPs are not specific to Supplier Volume Allocation (SVA) or CVA Metering Equipment so would not lend themselves to a transfer to the REC. We therefore propose that BSC metering CoPs remain under the BSC.

Q2.3: Do you agree in principle that the obligations currently placed upon metering agents by the BSC could be integrated with the REC performance assurance framework, subject to certain conditions being met?

- 1.9 Section 2.13 notes that “a significant number of failed customer switches each year are a result of missing or incorrect metering technical details”. This is a case where there is close alignment between customer detriment in retail and energy volume inaccuracy in Settlement, so integration with the REC performance assurance framework could work well. Overall Settlement accuracy, is reliant on the quality of metering data however a relatively low number of non-domestic sites can disproportionately influence this. The Settlement risk is managed by controls around the commissioning of measurement transformers and associated technical assurance checks performed by an agent of BSCCo. There is a risk that these volume-based checks would receive less focus in a REC performance assurance framework that prioritised based on customer numbers.
- 1.10 The obligations on Meter Operator Agents (MOA) and the associated assurance techniques are intrinsically bound together under the BSC, with assurance techniques like performance monitoring and the technical assurance of metering built into the Code itself and its subsidiary documents. This raises transitional challenges in terms of decommissioning or descoping BSC assurance techniques, including commercial contracts with BSC Agents, which potentially would have to be terminated or re-negotiated. At the same time we believe that careful consideration will have to be given to how, and when, RECCo could increment their services and whether they have to put in place and additional contract to carry out this work. We would however caution that any transition needs to be accomplished without undue risk to Settlement, and indeed meter readings provided for retail billing, accuracy.
- 1.11 The ‘hard-coded’ assurance techniques in the BSC present practical challenges in terms of planning the delivery of the BSC code changes ahead of implementing REC 2.0 in September. Consideration needs to be given to whether SVA MOA obligations move to the REC in their entirety or whether any obligations are retained in the BSC in respect of ‘high end’ e.g. measurement transformer metering. With any obligations retained in the BSC, the question is then whether they should be assured under the REC or the BSC. There are over 50 BSC Sections and Code Subsidiary Documents that define or reference Meter Operator

Agent obligations, so a significant amount of work is still needed both in relation to the REC metering schedules and the BSC consequential changes.

Q2.4: Do you agree that the RECCo should be required to develop and maintain a Strategy for the REC, including but not limited to digital transformation of REC processes and data?

1.12 We believe that it is important for RECCo to have a strategy and that it should be linked in the early years to the objectives that Ofgem set out in relation to Code consolidation. In addition we also consider that there should be a clear commitment for RECCo and its strategy should seek to ensure that RECCo remains thin and agile. It would also be beneficial for the RECCo strategy to set out its future role and glide path to managing the Central Switching Systems provider and incorporating other retail related code governance arrangements, such as the Smart Energy Code. These aspects would aid in the Code consolidation and simplification agenda. It would help all market participants and service providers understand the target operating model and goals of the organization.

Q2.5: Do you agree that RECCo should adopt zero based budgeting from 2021/22?

N/A

Q2.6: Do you agree that future RECCo budgets should be decided upon by the RECCo Board, subject to appeal by REC Parties?

N/A

3. Performance Assurance

Q3.1: Do you agree with the proposed composition of the PAB, as set out in the Terms of Reference published with this document (see Appendix 2).

1.13 Yes, we agree with the proposed composition of the REC PAB.

1.14 We support your argument that the REC will work most effectively given the appropriate collaboration between other codes and in particular with the assurance regimes of other codes.

Q3.2: Do you agree that any organisation undertaking an activity governed by the REC would be within scope of the performance assurance framework in respect of those activities?

1.15 Yes, this will ensure an organisation responsible for activities outlined under the REC are accountable for their performance. Likewise, the REC PAB will have greater visibility of those activities and be able to assess any risks associated with an organisation's performance.

1.16 However, as explained above (please see responses to questions 2.2 and 2.3), we are concerned there could be some overlaps between the REC and BSC assurance provisions on metering. In order to avoid any future confusion we would suggest prioritising practicality issues when or if any metering assurance provisions (both for metering systems and MOA) should be transferred from the BSC to the REC. The question as to what is retained under each code should be considered in detail prior to moving to REC 2.0 in September 2021.

Q3.3 Do you agree that at least one of the PAB's priorities should be determined by Citizen's Advice?

- 1.17 We consider that the priorities of the PAB must always be mindful and in keeping with the best interests of energy consumers.

Q3.4: Do you agree that the PAB should have discretion to escalate liabilities within a defined range if the earlier application of charges does not achieve the desired effect?

N/A

Q3.5: Do you agree that suppliers with serious performance issues should face restrictions on their ability to acquire new customers until those issues are resolved?

- 1.18 This provision exists in BSC but has not been used. It would need to be explicit that the PAB or Panel has the power over the function of the Supply licence and its exercise would not be against the wishes of the Regulator.

4. Change Management

Q4.1: Do you support our proposals regarding the production of preliminary and detailed IA?

- 1.19 Yes. This approach ensures that a rough order of magnitude can be given earlier on in the change process to support the case for continuing, finding an alternative solution or withdrawing the change. We assume this preliminary assessment can include a range of costs and timescales to reflect the inherent uncertainty in pipeline planning. If these assessments are only made against the current baseline, they are unlikely to reflect the actual expected cost of change.
- 1.20 Any assessment of costs and impacts has to be weighted up against the benefits. Whilst we recognise consideration of the benefits is likely to only be appropriate for larger changes, we believe consideration of benefits should be made explicit. For example, defining the measurable benefit hypothesis as part of the upfront proposal. Allowing for post-implementation assessment of this hypothesis would allow for monitoring of success and provide for intervention where appropriate.
- 1.21 Lastly, we would welcome clarity on the recent Code Administration Code of Practice (CACoP) proposal to assess consumer benefits and how you envisage this fitting into the REC change process.

Q4.2: Do you agree that the Change Panel should be appointed by the RECCo Board, following a process overseen by the nominations committee?

- 1.22 Yes. We also welcome your consideration that the initial Change Panel should match the composition of the REC PAB as set out in the PAB ToR. We believe that a balance between industry and independent representatives should exist.

Q4.3: Do you agree that the REC should encourage shorter and more frequent Change Panels, to be held remotely where possible?

- 1.23 Yes, we support this approach. Not only will this reduce the burden on participants but it also supports the transition to net zero by reducing travel (and costs).
- 1.24 We would also like to note the importance of the production of quality reports by the Change Manager and believe this could be a performance metric for the Change Manager.

Q4.4: Do you agree with the proposed categorisation of REC documents and

associated change paths?

- 1.25 We agree with the categorisation of the REC documents and note its similarity to the BSC document categorisation as detailed in [BSCP40 'Change Management'](#).
- 1.26 We also agree with the progression paths, which are comparable to the BSC Modification, Change Proposal and Issue 'paths'.

Q4.5 Do you agree that code administrators and managers should be able to raise any changes identified as necessary by the CCSG?

- 1.27 Yes. We agree that this reciprocal approach is fair and appropriate; code bodies could be able to raise consequential changes to other industry codes. Although this ability does not extend to codes such as the BSC and the UNC we are looking forward to working with you on the RCC consequential drafting changes to highlight potential asymmetries and provide a collective solution.
- 1.28 In addition, looking at the CCSG Terms of Reference, we would argue that the scope of the CCSG needs further clarification as to what circumstances and/or issues would entitle other code bodies to raise a code change, as current provisions aim to match those impacted by a change and those able to raise a change. Issues such as 'User pays' principles in codes other than the BSC would need to be understood.

5. Theft Arrangements

Q 5.1: Do you agree that we should extend the valid reasons for an objection to include ongoing and time-bound theft investigations, and subject to monitoring by the PAB? Do you have any suggestions for the period of time during which it should be possible to maintain investigations as a reason for an objection and what should trigger the start of that period of time?

N/A

Q5.2: Do you consider that the RECCo should be required to periodically review the effectiveness of the incentive scheme(s)?

N/A

Q5.3: To what extent, if any, do you consider that the Theft Target should be reduced pending the replacement of the Theft Risk Assessment Service?

N/A

Q5.4: Do you agree that the RECCo should procure a theft methodology, and use that to assess the effectiveness of a Theft Reduction Strategy, which it should also develop?

N/A