

## **Response Form**

### **Consultation on Governance, funding, and operation of an Event Driven Architecture for Market-Wide Half-Hourly Settlement**

The deadline for responses is **17 February 2022**. Please send this form to [HalfHourlySettlement@ofgem.gov.uk](mailto:HalfHourlySettlement@ofgem.gov.uk) once completed.

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**Is your feedback confidential?** NO ☒ YES ☐

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**Question 1: Do you agree with the proposed criteria for making our decision?**

We agree that the proposed criteria are appropriate.

**Question 2: Do you have any views about the relative importance of the criteria?**

Whilst we recognise that criteria seek to strike a balance between the future requirements of the electricity market and demonstratable capabilities, some of the criteria will be determined by the design produced by the MHHS programme rather than existing characteristics of the potential operators. For instance, the security standards may differ depending on the sensitivity of the data that the EDA may process, and/or based on whether the EDA platform itself may be considered in due course to be part of the critical national infrastructure.

Each organisation that may be chosen to operate the EDA will be required to discharge the requirements that have previously been determined and, in most cases, separately procured by the MHHS programme. We therefore consider that any existing in-house capabilities on areas such as information security and BCDR (i.e., criterion 10) may be less relevant than the future operator's ability to oversee and assure the appointed service provider(s) ongoing delivery of those capabilities as part of the procured service, i.e., criteria 3 and 9.

**Question 3: Are there any other criteria we should consider in making our decision?**

No, we consider that this is a thorough list of criteria.

**Question 4: Should the EDA governing body have objectives to provide accurate and timely support for the settlement process and to further consumers' interests through the appropriately controlled use of data? If not, please provide reasons and set out alternative objectives, also with reasons.**

We agree that this is important and that Ofgem might appropriately consider whether this should be an explicit obligation rather than simply an objective.

In terms of data access, such an objective could suitably be principles based, ensuring that it is future-proofed and allows the governing body an appropriate degree of discretion over how it is to be discharged, which should be demonstratable on an outcome basis rather than self-assessed compliance. For instance, while organisation may consider themselves to be adhering to the open-data data principle, that may not be the experience in practice of those reasonably seeking to access that data. The value of data may be diminished if access to it cannot be obtained in a timely and cost-efficient manner. The traditional permissions-based approach effectively creates a barrier that may stymie innovative use cases and wider market developments.

We also consider that it may be appropriate for the EDA operator and/or service provider to be subject to explicit obligations under, or designed to back of those within, the BSC in order to ensure the ongoing efficacy of central balancing and settlement systems. We further consider that these requirements will inevitably move beyond the traditional half-hourly approach to a settlement period of 15 minutes or less. Ultimately, systems must match the requirements of the market, not vice versa.

**Question 5: Do you agree that electricity suppliers, supplier agents, DNOs, generators, National Grid (NG) ESO, consumers and energy service innovators should be represented in the governance of the EDA? If not, please give reasons. Should any other categories of party be represented in the EDA governance?**

We agree. Fragmented and compartmentalised industry governance has been one of the inhibitors of effective change management in previous years, which itself has been recognised as being detrimental to competition as part of the CMA energy market review. These issues are currently being addressed through the joint Ofgem-BEIS industry codes review and we consider that it would be appropriate for the governance of the EDA to represent the sort of model that the industry is expected to work towards, rather than potentially having to fit within the constraints of any given historic model.

**Question 6: Do you agree that electricity suppliers, supplier agents, DNOs, generators and NG ESO should all take a share in funding the EDA? If not, please provide reasons. Should any other categories of party take a share in funding the EDA? We would be interested in any proposals as to the proportions by which the funding requirement should be shared between these parties.**

We consider that a decision-making model is more effective when its participants have the right incentives over the outcome of that decision, i.e., some skin in the game. An effective cost sharing model can help ensure that these incentives are in place. However, that also needs to be balanced against operation efficiency. The funding of stable BAU activities may appropriately be targeted as close to possible on the ultimately beneficiaries of those services, avoiding some of the transaction costs of passing monies through the value chain. However, the funding on non-stable activities which carry a degree of risk, might be more appropriately targeted on those parties who are best placed to manage that risk, passing through only what the regulator or the market considers to be efficient. We do not currently know what the costs drivers of the EDA platform will be, or their relative proportions, but it may be appropriate to consider a hybrid funding model whereby the fixed costs are borne by its most regular users on a predictable basis, while the marginal costs of additional use could be recovered on more of a transaction volume basis. This latter category could apply changes on an equitable basis to all the platform users, again ensuring that there are appropriate incentives for fair usage, etc.

**Question 7: With reference to each of the criteria and objectives, including any additional ones you propose, to what extent do you agree that the governance, operation, and funding of the EDA should be managed through BSC and delivered by Elexon?**

We agree that the funding of the of the programme should continue to be through the BSC in line with the existing model put in place by BSC modification P413. However, we do not consider that this should extend to the post-implementation funding of the EDA operation. The BSC funding model was developed in order to meet the budgetary requirements of the BSCCo. It does not necessarily correlate to a fit-for-purpose funding model for the ongoing EDA operation. Indeed, P413 itself had to deviate away from traditional BSC cost allocation, and that decision was predicated only on the recovery of the c£90m anticipated MHHS programme costs. As set out in our answer to Q6, we consider that there may appropriately be a bespoke funding model for the EDA platform which creates the right incentives for its use, and for the cost-recovery of future changes to it.

If the BSC is chosen to be the vehicle for governing the EDA, we consider that it would be appropriate for funding to be recovered through discrete charges. We also consider that funding parties should have an appropriate degree of influence over the level of those charges, given that the EDA will in effect be a de facto monopoly service but not subject to price control. RECCo has embraced a zero-based approach to budgeting which ensure that our costs are regularly scrutinised and must continue to be justified each year. REC Parties also have a right of appeal over a cost item which they consider to be inappropriate, either in entirety or scale.



**Question 8: With reference to each of the criteria and objectives, including any additional ones you propose, to what extent do you agree that the governance, operation and funding the EDA should be managed through the REC and delivered by RECCo?**

We continue to consider that the REC offers a better long-term strategic fit for the governance of the EDA, for the reasons set out in our self-assessment submission and so not repeated here.

**Question 9: Is there any other governance mechanism and party that you consider would be better placed than BSC/Elexon or REC/RECCo to govern, operate and fund the EDA? If there is, please substantiate your response by reference to each of the criteria and objectives (including any additional ones that you propose).**

Whilst it may have been possible to establish a standalone and bespoke set of governance arrangements for the EDA, this would not be consistent with the efforts that have been made in recent years to consolidate and simplify energy governance, addressing some of the issues with the traditional governance architecture identified by the CMA and others. To the extent that the EDA is appropriately governed under a code rather than for instance a series of bi-lateral commercial contracts, we agree that the BSC and the REC may each act as an appropriate vehicle. We further consider that it would be possible to revise either of those codes and/or to place specific requirements on the organisations that operate them, to fully meet the emerging needs of the whole electricity (if not wider energy) market, all of whom are potential users of the EDA platform. We therefore do not consider that the specific features of the prevailing codes or organisations should dictate the arrangements that may be in place from 2025 onwards. As set out in our submission, we consider that this is fundamentally a question of whether the EDA platform should be positioned as meeting the needs of central settlements, or more towards meeting the needs of consumers, with central settlements itself being essentially a customer of the EDA's output.