



7th March 2012

Harpal Bansal
Smarter Markets
Ofgem
9 Millbank
London, SW1P 3GE

Dear Harpal,

Re: Promoting Smarter Energy Markets: Consultation reference 174/11

Gemserv welcomes the opportunity to respond to the above consultation and supports the development of an Ofgem future strategy for smarter markets. Gemserv is currently supporting the Smart Metering Implementation Programme through dedicated assignments for DECC and the MRA Executive Committee and has a demonstrable background in developing and evolving processes and procedures to ensure markets work efficiently for all stakeholders.

We have been at the forefront of evolutionary change in the energy, water and environmental sectors, working effectively both with and for participants and customers to develop best practice governance solutions. In our role at the centre of the energy sector and as an organisation set up specifically to facilitate a successful liberalised market, Gemserv has acquired extensive experience in the provision of robust and practical solutions utilising governance, process and market architecture expertise. These areas of competency are clearly at the centre of the debate on which this consultation seeks views. Indeed, our central role over the last decade in governing the electricity switching and supplier registration arrangements under the Master Registration Agreement (MRA) means we have an unparalleled understanding of the governance, processes and systems that underpin successful and enduring market arrangements.

Our response seeks to inform the elements that should be incorporated into the factors, interdependencies and the roadmap in the event that Ofgem pursue a strategy for smarter markets. We would be pleased to discuss this response or provide any further information to assist Ofgem through the contact details below.

A handwritten signature in blue ink, appearing to read "Jill Ashby".

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Executive Summary

Gemserv is supportive of a strategy to look into improvements to the processes that underpin the energy sector arrangements. In our view, any such strategy should consider the perspectives of the smart meter platform as well as any additional factors in transitioning to new arrangements. That is not to say that either perspective should constrain or direct reforms; rather that the balance between innovation and managing change in a coherent manner must be complementary in order to achieve the optimal benefits.

The main areas considered in the consultation regarding enabling market development are appropriate, although we would observe that the potential for these candidates to realise consumer benefits will be largely dependent on any leverage offered from the smart metering arrangements put in place by the Government programme (SMIP) and consumer appetite for the options range. No doubt this target area will be further informed by the underlying analytical framework outlined in the consultation document.

Turning to the section of the consultation related to improvement of market processes, it is our view that existing arrangements for settlement, change of supplier, data processing and aggregation services, as well as consolidating industry retail codes governance may merit review in light of the implementation of smart metering. Furthermore, we agree that any potential transformation of these arrangements must be considered in the round and therefore the roadmap should recognise market developments outside of smart metering; which might include Green Deal and the Feed-In Tariff scheme and other matters such as the changes to the constitution of Xoserve and Elexon.

We would strongly recommend that Ofgem take into account all relevant matters in taking forward its strategy for smarter markets. Furthermore, we recommend that the costs and benefits strand of the underlying analytical framework should specifically recognise not only business costs but sector-specific central system and governance costs, in particular in the case of any run-down costs.

We have focussed our response on the proposed areas for the improvement of market processes as we are of the view that the retail market development aspects will be better informed by experience of the retail market reform work that is being progressed by Ofgem and the final shape of the smart metering arrangements.

Gemserv Response to Consultation Propositions

Proposition 5: Settlement arrangements should use actual daily (gas) and half-hourly (electricity) meter reading data in order to improve their accuracy and efficiency

We are familiar with the current settlement arrangements and consider that the availability of more timely and accurate meter readings will bring significant improvements to the integrity of actual consumption data that could be used in wholesale settlement.

Having regard to the many other related factors contributing to settlement reconciliation, we are of the view that the matter needs broader consideration, not least of which will be the impact of accurate consumption data on 'proxy' profiling and correction factors that are in use. Moreover, the balance between the smart and non-smart meter population will change over time and needs to be better understood – and potentially this could be a comparatively aggressive timescale dependent on smart meter rollout projections. Whilst any profiling distortions have yet to be identified and comprehensively assessed for remedy, Gemserv support a path towards energy settlement based on actual consumption for wholesale, retail and consumer benefits.

It should also be noted that, at this time, there are several proposals being considered for the future treatment of settlements data for smart meters, including the extension of the use of half hourly electricity consumption data. No doubt Ofgem will take the outcomes of these deliberations when setting their future strategy for smarter markets.

Proposition 6: The change of supplier process should be reliable and fast, so that customers can confidently switch supplier on a next day basis.

Switching supplier by consumers should, in Gemserv's view, be a seamless process. We are not entirely convinced by the statement in paragraph 4.35 that energy markets should be brought into line with switching in the banking or phone sectors. There is empirical evidence that consumer switching in these sectors is neither confident nor reliable. We would highlight that Ofcom are currently undertaking a review of customer switching for the telecoms sector which proposes intervention through third party validation to verify switching and the banking sector is still on the road to a smooth and encompassing transfer of all embedded banking products.

Nevertheless, we are firmly of the view that market arrangements should support reasonable aspirations of both suppliers and consumers in managing switching activities. To this end, it should be noted that registration systems in the electricity sector have had the functionality for next day switching since 1998. However, other factors have impacted upon the uptake of this option including BSC obligations for agent management and legislative considerations related to consumer protections (such as 'cooling off periods'). Consequently, we are unsure at this time whether an aspiration of next day switching is appropriate from a platform of smart metering alone.

Paragraph 4.30 highlights the potential benefits from a central registration service for gas and electricity metering points. It is as yet unknown what shape such a registration service would take, and discussions to date in the SMIP Workgroups indicate that suppliers would wish this to be a richer function and service than currently in place. Any potential opportunity from this development must be assessed against its efficacy in meeting the improvements envisaged by Ofgem and the complexity of managing registration data – by DCC and Suppliers. It is our view that this potential opportunity can only be assessed once the scope and extent of the proposed DCC uptake of registration services is more defined.

In terms of the transfer of responsibility for managing a registration function/system, as envisaged by the SMIP, Gemserv are of the view that the orderly migration of registration is a material consideration and should be recognised as a discrete factor of any future strategy for Ofgem. It should also not be overlooked that any such transformation will necessarily require a rundown

period for legacy registration arrangements, which will require management across various codes governance and, potentially, regulatory oversight.

Whilst noting the scope for potential improvements set out in paragraph 4.31, these are as yet untested and are silent on consumer engagement with the suggested mitigations of dispute by the customer. It is understood that these factors could provide confidence for suppliers, but Gemserv believe that their place in mitigating switching issues for customers – particularly if there is any inherent consumer distrust of smart meters – is yet to be proven.

In the event that Ofgem pursue a strategy to facilitate customer confidence to switch energy supplier on a next day basis, it is Gemserv's view that this should be progressed taking into account the wider arena of consumer protections which the energy sector arrangements cannot avoid.

Gemserv would be pleased to provide further detail to Ofgem on switching processes in both the electricity and other utility markets or case studies on establishing/transferring registration services.

Proposition 7: Electricity data processing and aggregation services should be procured centrally in order to reduce costs and support fast customer switching.

As a general observation, Gemserv consider that the description of these activities may be better attributed to data services rather than metering services, as contemplated in the consultation document. We come to this view on the basis that metering services, in the wider sense, could encompass physical activities such as installation, set-up and remedial/replacement functions. Data processing and aggregation activities rely on metering services, but are not integral to those functions of metering services.

Gemserv note that the current functions of data processing and data aggregation are broadly anodyne, in that they adhere to a set of common rules. These functions would therefore seem to be candidates for centralising through a single function. However, this would need further consideration in light of developments against Proposition 5 (Settlement arrangements should use actual daily (gas) and half-hourly (electricity) meter reading data in order to improve their accuracy and efficiency). In particular the consideration of any profiling/AQ processing revisions or impacts – for suppliers, network operators and Xoserve/Elexon responsibilities– will need detailed assessment.

Paragraph 4.57 notes that centralised data processing services could be procured or provided by the current incumbents in the gas and electricity sectors. Gemserv are not convinced that this should be the case under a revised approach. For instance, we are unclear why considering a national, centrally-driven direction would, for example:

- deviate from the approach adopted for DCC services
- fit with any new constitution of Elexon or Xoserve

Gemserv note Ofgem's key issues arising from adopting a centralised approach. Nevertheless we are of the view that, if data processing and aggregation services are to be centralised for market benefit, this approach diverges from the current licence-backed need to proscribe such services. On this basis, any change should be robustly assessed, not only on the grounds of competition

considerations as noted by Ofgem in their consultation document, but also for any period of 'parallel running' and/or run down of the prevailing arrangements.

Proposition 8: The Smart Energy Code (SEC) should be used as a vehicle to consolidate existing industry codes dealing with retail issues in gas and electricity to facilitate market development and reduce administrative burdens.

Paragraph 4.62 notes the number of main industry codes that apply to energy suppliers (and shippers) to be in the order of nine. However, this omits reference to these code origins, which are derived from licence obligations, usually directed at a licensee responsible for a natural monopoly. In essence, industry codes cascade through the many actors involved in accessing the services of this natural monopoly, ultimately on behalf of end users.

At the time of this Ofgem consultation, the SEC is being compiled to provide the code governance for the arrangements regarding smart meters and any future uptake of centralised registration activities by the DCC. It is anticipated that the SEC will be under a DCC licence obligation. Any scope for matters that extend beyond the scope of the DCC licence is unknown and, to our knowledge at this time, not being considered. No doubt this can be better understood when the SMIP issue the consultation documents for the SEC contents later in March.

In the meantime, Gemserv would agree that the SEC could be used as a vehicle for any future consolidation of existing codes, subject to the SEC having that reach. In this regard we would reiterate our observation that codes originate in licence conditions and, if the DCC licence (where the SEC is currently expected to be embedded) can extend to consolidation of existing codes – which are by definition not DCC managed- then this proposition can be contemplated within Ofgem's smarter markets strategy.

Gemserv are also of the view that this proposition should acknowledge the extent and timing of any consolidation exercise on the scale of transformation required across two fuel markets as well the related upstream impacts (settlements, networks/transmission/transportation/distribution).

In terms of any code consolidation exercise, Gemserv consider a major factor to be how stable the SEC or any other existing code requirements may be at any given time. For example, the need to take account of the rate at which existing codes, and potentially the SEC, will be evolving to accommodate SMIP requirements, and whether this is likely to increase during the smart metering rollout/DCC live operation.

It may be prudent to consider the merits of an interim period whereby the construct and operation of the SEC is examined in line with current cross code working, which may suffice for the purposes of future development.

There are examples of cross-code working and industry-led code re-construction that can inform a strategy for reform. It would be useful if these case studies could be considered in any future Ofgem strategy plans, and Gemserv would be pleased to support Ofgem in compiling any relevant case studies.