By email to smartermarkets@ofgem.gov.uk

Andrew Wallace
Smarter Markets
Ofgem
9 Millbank
London

11 August 2014

Dear Andrew,

We welcome the opportunity to provide ELEXON Limited's views on the above consultation and Draft Impact Assessment published by Ofgem on 16 June 2014.

ELEXON is supportive of changes to deliver benefits to the market and the end consumer. We are keen to assist in the definition and delivery of these changes and lend our expertise in these matters to ensure that the design is right and improvements are made to simplify a complex process and make things simpler and better. We would want to offer our skills, experience and expertise to help Ofgem to deliver the vision of Smarter Markets, whilst maintaining the integrity of the end to end 'meter to bank' (including settlement) process.

The views expressed in this response are those of ELEXON Limited alone, and do not seek to represent those of the Parties to the BSC. ELEXON's response is focussed on those aspects of the switching process that impact on Settlement or are impacted by the BSC processes.

We confirm that this letter and its attachment may be published on Ofgem's website.

We would be happy to discuss our response with you.

If you or your colleagues need anything further from ELEXON, please contact me on 020 7380 4313 or by email: jon.spence@elexon.co.uk.

Yours sincerely,

Jon Spence
Senior Market Analyst

Moving to reliable next-day switching
Chapter Two
Question 1 Do you agree that we have accurately described the benefits of improving the switching process?
Yes.
Chapter Three
Question 1 Do you agree with our impact assessment on next-day, two-day and five-day switching based on either a new centralised registration service operated by the DCC or enhancing existing network-run switching services?
Yes. The complexity of the current electricity arrangements ('Reliability' 3.10 third bullet) arises not solely from the registration arrangements, but from the fact that registration data is shared among multiple market participants over a distributed systems architecture. Some of the wider settlement reform options (under consideration by the Smarter Markets programme), like half hourly settlement and centralised data processing and data aggregation, could yield a more significant reduction in complexity. However, the latter in particular, will need to build on centralised registration in order to maximise the benefits to industry and the end consumer, such as reduction in costs, simplicity and minimising error. Although the proposal is for the centralised registration service to be hosted and operated by the DCC, we would expect the service to include settlement registration data and for this to continue to be sourced by the appropriate party, i.e. supplier or network operator, depending on the data in question. The governance framework ('Reliability' 3.10 fourth bullet) will need to continue to ensure that registration data is owned and maintained by the party best place to do so, notwithstanding that the DCC will hold the data. For example, it is critical for the settlement and electricity balancing arrangements that all live distribution connection points are accounted for and network operators are the best source of this information.
Question 2 Do you agree with our proposal to implement next-day switching on a new centralised registration service operated by the DCC?
Yes.
Question 3 Do you consider that fast (e.g. next-day) switching will not have a detrimental impact on the gas and electricity balancing arrangements?
Yes, if implemented carefully (see comments).

As you note in paragraph 4.4, ELEXON will be implementing changes in November 2014 to reduce the timescales for appointing agents and exchanging metering and reading data to seven working days. It is envisaged that these processes will be carried out, initially at least, ahead of the supply start date. This is primarily to allow consumers with traditional prepayment meters to benefit from new tariffs on 'day one' (as you note in 3.32). For all other consumers, the processes can start a day ahead of the supply start date and complete in time to process a change of supplier reading within eight working days. So in this respect we would not expect next-day switching to have a detrimental impact on settlement. It is assumed that bulk switching (such as the 'Big Switch' initiative and large non-domestic portfolios) would not be initiated a day ahead, and the risk of suppliers having to purchase increased volumes of energy at (probably more expensive) day ahead prices is not significantly increased as a result of day ahead switching.

Need to manage retrospective backing out of registration

Running the switching process in parallel with the cooling off period will result in the retrospective backing out of registrations. This is not without risk as, associated processes, such as agent appointments and de-appointments, and data transfers will need to be terminated and reverted cleanly in the event that the consumer cancels their contract. Industry processes will need to be well designed to mitigate this risk. Changes will need to be made to the BSC to define how any consumption (or exports) between the original registration date and the date of reversion to the losing supplier is settled, without exposing either supplier to an imbalance risk. The extent to which access to readings is constrained by the DCC security regime during the cooling off period will have a key influence on any BSC solution. ELEXON is keen to assist in the definition of these changes and lend its expertise in these matters to ensure that the design is right, we maintain the integrity of the end to end 'meter-to-bank' (including settlement) process and these risks are well mitigated.

Chapter Four

Question 1

A central electricity metering database is not currently included within our proposed package of reforms. Do you agree it should be excluded?

Yes, subject to the possible inclusion of certain metering data items within the central registration system.

We assume that the data currently held in the network-run registration systems will be held in the centralised registration system, including Suppliers registrations, agent appointments and settlement data (for example, the Profile Class, for electricity).

A number of metering data items are included in the Electricity Central Online Enquiry Service (ECOES), which is already a 'virtual' centralised registration service (albeit predominantly 'read-only'). These include the Meter Serial Number, Meter Type, Meter Installation and Meter Asset Provider and are all items which may not be available from the meter itself. These items are sourced by Meter Operators directly, rather than by the registration systems. Given that there are sound business reasons for making these data items centrally available, we believe that they should be included in any centralised registration service (along with those items listed in Appendix 3 Supporting Information 1.3).

We do not believe there is a strong business case for including other meter technical details and reading data, for the reasons set out in our response to Question 2.

Question 2
If a central electricity metering database is included within our proposed package of reforms, do you consider that it should cover both AMR and traditional meters? Do you think that there would be any benefit in extending the central electricity metering database to cover smart meters?

Traditional meters
One of the reasons that problems arise in the change of supplier process with traditional meters is that different market participants hold different views of meter technical details. To implement a central electricity metering database would require a data cleansing exercise, probably involving large numbers of site visits, to establish a 'single version of the truth'. This would come at a significant cost, over and above that of developing the database. As you note in 4.14, the benefits of the central database and cleansed data would only be realised over a period of about three years. So we don't consider that a central database is beneficial for traditional meters.

AMR meters
Interoperability for AMR depends on the sharing of communications and security details (which is not the case for DCC-serviced smart meters), so the case for centralising meter technical details for AMR is stronger than it is for traditional meters. However, the higher-end advanced meters will be settled half hourly, so the change of supplier process will be less dependent on an agreed changeover reading. Lower-end advanced meters could well be serviced by the DCC, when or before the advanced meter is replaced by a smart one. As such there does not appear to be a clear-cut, longer term business case for a central database to cover AMR meter technical details.

Smart meters
Meter configuration details will be available directly from smart meters (or the DCC technical inventory, which will act in part as a central database for smart metering details). As you note in paragraph 4.5, BSC Modification P302 'Improve the Change of Supplier Meter read and Settlement process for smart Meters' will remove (or reduce) the new supplier's agent's reliance on register mapping details and previous readings from the old supplier's agents. The extent to which the change of supplier process depends on meter technical details and reading histories will also reduce if half hourly settlement is extended to all domestic and small non-domestic consumers. The removal of these dependencies weakens the business case for a central database for smart meters.

Chapter Five

Question 1
Do you agree with the implementation principles that we have identified?

Yes.

Question 2
Do you agree that Ofgem has identified the right risks and issues when thinking about the implementation of its lead option (next-day switching with centralised registration)?

Yes. However we would add the following:

1) A risk that the design of the central registration service is not sufficiently future-proof. For example, some of the future changes under consideration by Ofgem's Smarter Markets programme, including demand side response, local balancing, universal half hourly settlement and centralised data processing and data aggregation may influence how data should be structured within the central registration system. Greater flexibility in terms of 'virtual metering systems' is one example.

Therefore, consideration should be given to these other potential changes and in the longer term the impact of smart grids.

Question 3
Do you agree that we have identified the right implementation stages?

Implementation approach - in which registration data is migrated from current network-operated systems, is probably a stage in its own right. Gas and electricity data will need to matched, merged and cleansed, potentially ahead of 'go live' to achieve a successful 'big bang' cutover. Based on our experience, transitional activities could be significant so shouldn't be underestimated.

Question 4
What do you think is the best way to run the next phase of work to develop the Target Operating Model for the new switching arrangements?

We agree that a collaborative approach is required with oversight from Ofgem.

ELEXON has a crucial role to play. We are well placed to make independent judgements, provide critical friend support and lend our market experience and skills. Our requirements for accurate and timely change of supplier readings (to determine suppliers' settlement liabilities) are well aligned with those of the consumer. Coupled with our expertise in the detailed electricity change of supplier processes, we have much to contribute to the business process design.

Question 5
What do you think are the advantages and disadvantages of the DCC being directly involved in the design of a Target Operating Model for the new switching arrangements, and the development of the detailed changes required?

As you observe in paragraph 5.12, the DCC will be actively engaged in establishing and bedding-in its systems for the roll-out of smart meters. Meter variants, opt-in/opt-out processes, communications black-spots, export metering, load control, incorporating AMR will probably continue to occupy the DCC far beyond the initial stage of the roll-out. There will already be a degree of centralised registration in DCC systems from initial live operation to support access control to smart meters, so the DCC will have an important role in advising on how this can be expanded. However, there is also a risk that the DCC's view of a central registration service will be too focussed on those aspects of the registration service that relate to smart metering and the totality of registration requirements (e.g. Green Deal, special needs, unmetered supplies, larger half hourly metered sites) may not get sufficient attention.

Further to our proposal in answer to Question 6, we suggest that Ofgem could place obligations on licence holders and actions on industry bodies (with support from expert groups) that this work is taken forward by them. We would aim to support this cross industry initiative as best we could, co-

ordinating with other industry bodies/ administrators to help Ofgem. We would suggest an approach building on our proposal for taking forward Settlement Reform, see Panel Paper 207_02_Smarter_Markets.

Question 6
Do you agree that an SCR is the best approach to making the necessary regulatory changes to improve the switching arrangements?

It is likely that the introduction of a central registration system will lead to a complex set of detailed requirements and that high levels of industry involvement will be needed to develop these detailed requirements. Given that industry-led processes would be needed with or without an SCR, the SCR could lead to a delay in the overall delivery timescales. The changes could be delivered as coherent package via an independently project managed cross-industry programme (similar to that used to deliver the 1998 competitive supply reforms). With Ofgem oversight and a Target Operating Model defined to a sufficiently granular level of detail, this should allow industry parties to deliver detailed changes as a coherent package. Given our expertise and experience in the development of the 1998 and NETA proposals, we would wish to support this cross industry initiative, co-ordinating with other industry bodies/ administrators to help Ofgem deliver the benefits to the end consumer.

Question 7
Do you agree with the proposed implementation timetable? Are there ways to bring forward our target go-live date?

The proposed implementation timetable represents a good starting point. The development of the Target Operating Model in Stage 1 will allow for a more detailed impact assessment of Stage 2 and 3 delivery timescales. It will also identify whether there are any opportunities for a phased delivery to bring forward the target go-live date. It is critical to success of the Smarter Market vision that the Target Operating Model is developed in a timely manner and we would seek to support that development as best we can to ensure the design is right and integrity of the meter-to-bank process maintained.

Appendix Three

Question 1
Do you agree that we have accurately identified and assessed the main reforms that could improve the switching process?

Yes

Appendix Four

Question 1
Do you agree that our approach, methodology and assumptions are appropriate to identify the quantified impacts of our reforms?

ELEXON has no view.

Question 2

Do you agree with our approach for approximating the direct costs for market participants of investing in upgrading existing registration systems to real-time processing and the ongoing costs of operating these systems?
ELEXON has no view.
Question 3 Do you agree with our assumption that the direct costs for market participants of investing in systems to shorten the objections window and the ongoing cost of operating these systems would be similar for a two-day and a one-day objections window?
ELEXON has no view.
Question 4 Do you agree with our assumption (see Annex Figure 3) that 10% of the counterfactual change of supplier electricity meter read costs provided by market participants should be attributed to AMR meters?
ELEXON has no view.
Question 5 Do you agree with our assumption (see Annex Figure 2) on the reduced efficiency of operating a central electricity metering database for traditional and AMR meters as the numbers of traditional meters declines?
Yes
Question 6 Do you think there is efficiency potential for shortening the objections window to one day combined with: (a) upgrading the existing gas and electricity registration systems to real-time processing; or (b) centralising registration with real-time processing? If so, what do you estimate this efficiency potential to be?
ELEXON has no view.
Appendix Five
Question 1 Do you think the results set out in this appendix are comprehensive enough to show the potential direct cost impacts of the reform packages we have considered?
ELEXON has no view.