

1. Executive Summary

- 1.1. British Gas believes that the current industry codes framework adequately supports incremental improvement but that it is not well-suited to delivering strategic or transformational change. The creation of a single centralised view of meter data, via the DCC, creates the opportunity for the genuine transformation of processes and governance structures that were designed in the 1990s, for a very different environment.
- 1.2. There are a number of critical elements to the delivery of change on scale envisaged by the Smarter Markets team. One of these is a structural review, and the overhaul of Code Governance arrangements should be included within the delivery programme for transformational change. Failure to do so risks ultimately adding time, cost, and coordination overheads, and could leave an incoherent collection of legacy codes, many of which may have lost their original purpose.
- 1.3. We suggest that there are three distinct threads of activity required to progress the requirements Ofgem has highlighted:
 1. Build a strategic vision of how market and governance arrangements will evolve to align with policy goals;
 2. Develop programme management capabilities to shape and deliver transformational change; and
 3. Improve the effectiveness of industry codes.

We have a number of ideas of how this might be progressed and would welcome an opportunity to discuss with Ofgem how these thoughts could be developed further. In summary, we see benefit in unifying under a single programme more than simply the end destination. We need to address the route-map, the governance and the enduring architecture.

2. Introduction and Purpose

British Gas has produced this discussion paper to explore points raised in Ofgem's "Industry Codes" submission to the CMA. We hope that this will form a constructive input to dialogue on reform of the codes governance arrangements, as well as how to establish a framework to support the transformational changes the industry will undergo in the next 5 to 10 years.

We expand on the following points in this paper:

Code governance today

We are aligned with Ofgem that there will always be a need for a set of Codes that describe how our industry works day-to-day but the sheer number of codes today adds cost and resourcing overheads. Variations in their governance arrangements add complexity, create potential barriers to entry or expansion, and impose time and cost overheads for all suppliers. It is not easy for participants to navigate the market. With the exception of very simple changes, the industry code change management processes do not support the rapid progression of modifications or resolution of issues. Neither are they optimised for the delivery of transformational changes such as those the industry is now contemplating.

Delivery of strategic change:

There is a need to agree the strategic direction of change and for the coordination of that activity. This is critical to achieving the best outcome within an acceptable time frame. Code reform must be an intrinsic part of that. For example, it is not possible to deliver the changes required for next day switching without revisiting code governance.

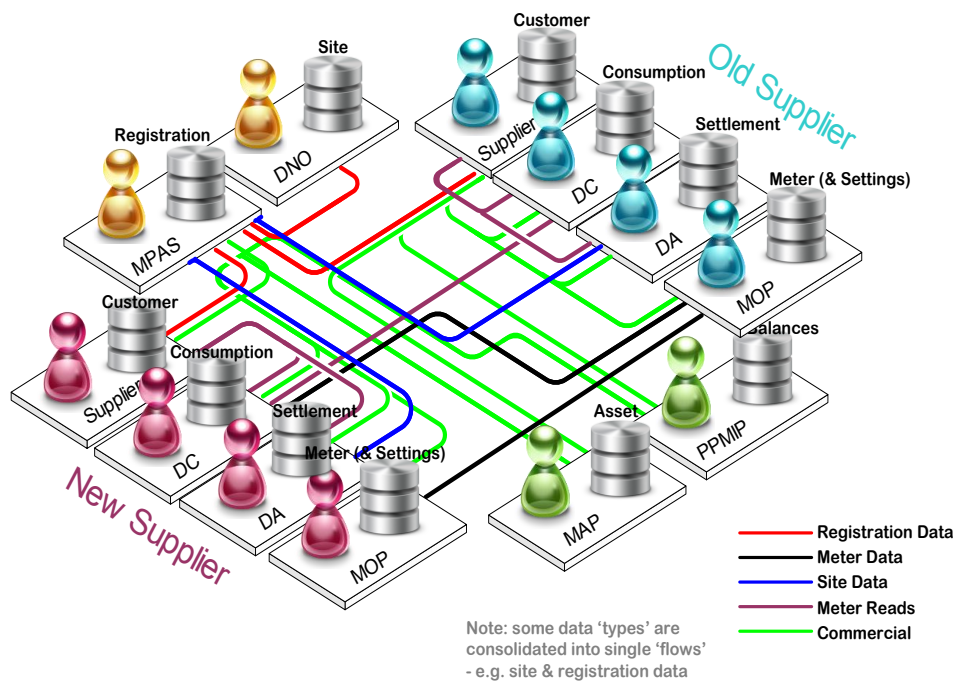
3. Code Governance today

There will always be a need for a set of codes that describe how our industry works day-to-day but the sheer number of codes today adds cost and resourcing overheads. Variations in their governance arrangements add complexity, create potential barriers to entry or expansion, and impose time and cost overheads on all suppliers. It is not easy for participants to navigate the market. With the exception of very simple changes, the industry code change management processes do not support the rapid progression of modifications or resolution of issues. Neither are they optimised for the delivery of transformational changes such as those the industry is now contemplating.

- 3.1. Industry codes serve an important purpose. They provide the standards and govern the processes participants need to interact with each other. It is, therefore, imperative that all participants are positioned to understand and comply with their obligations. Failure to do so would bring unacceptable impacts both on customers, and on other participants. The complexity of the arrangements reflects the complexity of the energy market and cannot be used to justify any market participant being selective about their levels or areas of compliance. Notwithstanding this, we believe there are opportunities to improve things without undermining the efficient functioning of the market.
- 3.2. The number and complexity of codes are shaped by several factors, including:
 - (1) The large number of participants in the market, and the number of market roles associated with the “supplier hub” principle;
 - (2) The fact that, as well as retail competition, supplier hub agent services are also competitive. This means that every time a customer switches supplier, up to four different “change of agent” processes have to occur to appoint the new supplier’s contracted agents;
 - (3) The processes and SLAs that are required to govern the multiple transfers of data between multiple participants; and
 - (4) The evolution of the codes over many years to accommodate unforeseen policy initiatives, such as metering competition and the Green Deal.

The diagram¹ below illustrates the point. It represents a simplified view of the number of participants and the flows of information that must be exchanged to execute a change of electricity supplier (where there are no exceptions):

¹ Source: Strategic Vision Discussion Paper – Central Communications Model – Proposed Options – published by Energy UK, January 2010 (full version of document is attached as Appendix 2)



- 3.3. Customers are (quite rightly) oblivious to the number of arrangements that are altered to effect a 'simple' change of supplier process. They do, however, feel the impacts when something goes wrong. With this much data to align between parties, delays and exceptions can occur. This in turn creates real problems for customers, including incorrect bills and delayed customer transfers. Centralised registration built on a single view of meter data means that this design need not and cannot be sustained.
- 3.4. The current structure of the market and the codes that facilitate its operation have grown organically since their conception in the 1990s. There has been no holistic review or 'grand design' since that time. The foundations established to open up the market have been gradually extended or built upon, with two main drivers:
- (1) to make it all work better – through changes, procedures, working practices and the like, most of which have added bulk – and;
 - (2) to accommodate the requirements of new policy developments (such as metering competition, NETA/BETTA and distributed generation, for example.)
- 3.5. The number and complexity of codes increases the resources necessary to engage in the industry. The differences between the gas and electricity market in terms of code scope also add complexity to cross-code changes since the processes and scope are not parallel. This means that delivery of aligned changes across both fuels is not straightforward.
- 3.6. Although there are more codes in electricity than in gas, this has both advantages and disadvantages. Each electricity code has a specific area of focus and set of objectives aligned with that area of the market. This provides greater clarity when developing code changes, not

least because the working group participants and those voting on changes (the panel members) are only required to have a detailed knowledge of their particular code (albeit they need to understand how their code fits into the overall arrangements).

- 3.7. For gas, our experience is that the Uniform Network Code and its underlying code administration, change process, panel constitution and voting give rise to more issues than are found in electricity. The code governs transmission, distribution, settlements and some of the retail arrangements, and the systems underlying the code are similarly integrated across those areas of the market. This means that getting agreement over the impact of change proposals, and achieving a recommendation from the Code Panel presents, at times, very significant difficulties.
- 3.8. For both fuels, achieving alignment on changes affecting the retail area is much more difficult as a result of the competitive nature of the market. Supply businesses are not a homogenous group; they do not always think alike, do not have the same business strategy or plan, types of customers or product range. The processes governed by codes, and therefore the topics impacted by changes, are also those that most directly affect customers' experiences at critical interaction points, for example switching.
- 3.9. One observation is that much time is taken up in working through the impacts of the proposed change on the processes and data-flows that underpin the industry, often based on pooling the knowledge and experience of individual participants of how the arrangements work. A central, dispassionate view of this as an input to working group discussions, with clarity on impacts, and options on how to achieve the proposed change would, we feel, speed up the process. There are various levels of support from Code Administrators on this front which serve to highlight the value of a strong, knowledgeable, impartial expert in an advisory role. We are attracted to the concept of a central body to cover such matters for multiple codes.
- 3.10. There are a number of issues with administration and change processes today, summarised below, all of which contribute to the perception of change being delivered inefficiently:

Cost and quality	We estimate that the costs to customers across the industry of the code administration of the MRA, BSC, DCUSA, UNC, SEC and SPAA for 2015 will significantly exceed £10m. The service quality from Code Administrators is variable with limited accountability for performance levels.
Duplication	Where changes cut across more than one code the review and approval process is replicated within each one; this can increase the time, effort and costs for all participants ² .
Coordination	The absence of a mechanism to coordinate implementation timings across codes is a significant issue for large, strategic changes such as the Nexus

² P272 provides a recent example of a multi code change (BSC, CUSC). Quicker switching also falls into this category (UNC, IGT UNC, SPAA, MRA, BSC).

	Programme, or Data Comms Company (DCC) Day 1. Failure to deliver on time or to the required level of quality by one or more participants will have major impacts on others and, ultimately on customers.
No standardisation	There is considerable variation in the ways that codes are governed and participants' views represented. Ultimately, poor decisions can be appealed but sub-optimal Panel arrangements can lead to the frustration of progress ³ .
Conflict	It is not realistic to expect a diverse range of stakeholders to reach a consensus view on change. In practice this can contribute to protracted debates on some proposals. There are capacity as well as cost constraints that weigh heavily in participants' appetite to progress unplanned changes. This can produce periods of deadlock. We note that Ofgem has referenced the possibility of incumbents using shortcomings in code change processes to block or delay changes. We have seen no evidence of this and highlight (see Appendix 1) the role that British Gas has played in leading a number of strategic industry reforms ⁴ .
No unifying vision	Code change is not, and has never been intended as the means for conceiving visionary/transformational cross-market redesigns which, to qualify for that description, will always cut across a number of industry codes. The missing catalyst for the reengineering of code governance is the target design for a simplified industry. That will not come from within a code change management process which was designed to facilitate incremental improvements and reactive changes for policy initiatives.

3.11. Conclusions for discussion:

- There is no value in code consolidation without a clear blue print of the future design;
- When that is defined, the fit-for-purpose code governance approach should be designed; we should not start from the evolution or adjustment of what exists today;
- We should remain open to the perpetuation of single subject codes in specialist areas; and
- A cross-code centre of expertise may have value in providing advice on technical impacts of change proposals.

³ We would highlight issues with UNC modifications 442 and 442A in this respect, where "independent" Panel members representing the networks companies did not vote or express a preference on two modifications (where there were polarised views across domestic and non-domestic supplier communities), preventing either modification gaining a Panel recommendation.

⁴ Examples are Gas Settlement Reform (Project Nexus); Theft Reform; Data Quality Improvements for Shipperless and Unregistered sites; Switching Reform. Further details are provided in Appendix 1

4. Delivery of strategic change

There is a need to agree the strategic direction of change and for coordination of that activity, given that, as discussed, the current framework does not best facilitate this activity. This is critical to achieving the best outcome within an acceptable time frame. Code reform must be an intrinsic part of that. For example, it is not possible to deliver the changes required for next day switching without revisiting code governance.

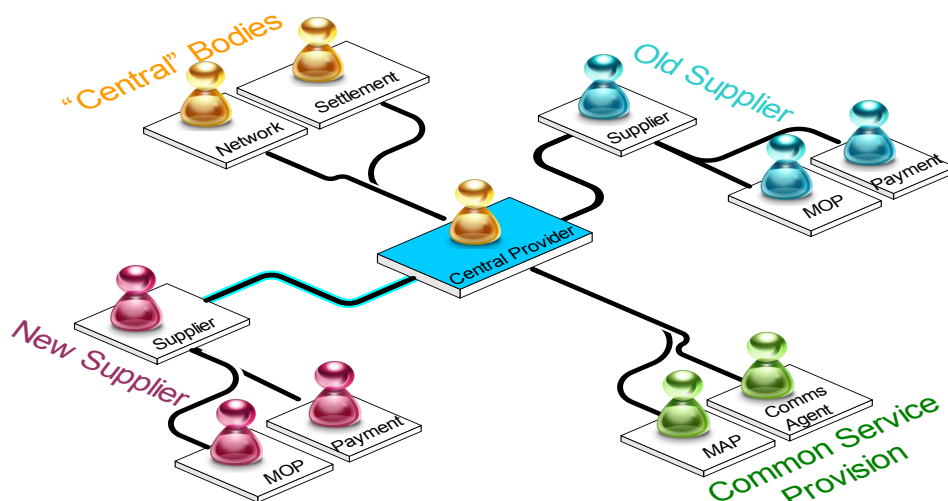
- 4.1. As the Smarter Markets Programme has identified, in the next few years the industry must deliver a number of transformational programmes of change, including:

Smart Meter Rollout on the DCC, Project Nexus, Electricity Settlement Reform, Centralisation of Registration activity, Next Day Switching, Smart Grid enablement.

Successful implementation is key to raising service levels, securing the anticipated benefits, and improving trust in the industry. An Ofgem programme-managed approach to transformational change is required, which should include Code Governance reform within its scope.

- 4.2. The DCC provides the ideal platform through which to address the divergent processes for gas and electricity registrations and the anachronistic devolution of supply point registration services. This will not happen without some central direction, a vision of the future industry design and robust governance to provide engagement and momentum.
- 4.3. Defining more clearly what the end-state is going to look like will make it easier for participants to engage and mobilise. Without that vision, industry participants will not invest time and resources in wholesale redesign when the current arrangements work adequately, participants' capacity to deliver change is at breaking point, and there is no prospect of achieving consensus without independent leadership. Ofgem has a vehicle for achieving industry buy-in through the Smarter Markets Programme, but at the current time without express focus on the market structure or, as a starting point, analysis of the structure that will come into being at DCC Day 1. This cannot be left for the individual codes to impact assess in isolation. That would perpetuate many of the inefficiencies described in section 3.
- 4.4. The greater the clarity provided at the outset, the fewer disputes and delays are likely to arise during the modifications process. The industry-wide commitment to the smart metering programme provides confidence that consensus for strategic change is achievable. Any vehicle for delivering strategic or structural change to the market must be broad and include a process to facilitate the building of industry consensus and support.
- 4.5. We suggest that the Smarter Markets Programme should provide the following items:
- (1) A clear vision on a future, simpler, market structure reflecting the cumulative effects of all strategic change;

- (2) A high level roadmap for transition providing clarity on the enablers for change and grounded on an agreed view of priorities;
 - (3) Robust direction and strategy on the evolution of both policy and underlying market structure;
 - (4) A cross-cutting plan. Where the plan needs coordination in terms of delivery (i.e. participants must act in concert, or industry change dependencies must be managed), then detailed readiness planning and coordination is needed. We recognise that agreement would be required on where ownership of this activity would sit, but it is clear that professional Programme Management expertise would be needed to perform this function; and
 - (5) A decision making and oversight mechanism. In any major programme of change, decision-making is needed throughout the programme and, given that consumer benefits will be at stake, and individual participants will be required to make investments to ensure delivery on time, it is critical that this function is even-handed and transparent. Such a group would need to hold participants to account for delivery.
- 4.6. DECC's DCC Day 1 programme and the "stewardship" function it has played in preparations for Initial Live Operation has, in our view, provided a very good template for future such programmes of work. It is not realistic or feasible for competitors to establish this level of programme coordination without direction.
- 4.7. In paragraph 3.2 above we referenced Energy UK's document from January 2010 "Strategic Vision Discussion Paper – Central Communications Model" and this is attached, because it sets out a very clear vision for market simplification. It is also a good example of industry's proactive engagement in shaping and progressing market reform. The central communications model was conceived and developed by the large suppliers working collaboratively with Ofgem and DECC.
- 4.8. In comparison with the complexities in the diagram above, the document illustrates the simplification that could be achieved:



The paper notes: *“The implementation of smart metering will require significant change to the current industry arrangements. There cannot be a ‘do nothing’ option. Smart metering presents an ideal, perhaps unique, opportunity to simplify, rationalise and align the existing electricity and gas retail and metering processes and governance arrangements. One of the key objectives in making such changes must be to make it easier for customers to do business with their energy Supplier, making the Change of Supplier switching process simpler, as well as improving the overall functioning and efficiency of the retail energy markets.”*

While the structural simplification of the market is well underway with the introduction of the DCC, this is by no means the entire picture and Ofgem’s work on Quicker Switching, Settlements, DSR and ‘Non traditional business models’ will greatly inform this picture.

- 4.9. The Significant Code Review process is available to Ofgem to define cross-cutting market changes, and then to direct the raising of appropriate modifications. We recognise that the consultations required under SCR mean that a certain amount of time will be required for the SCR to conclude and modifications to be raised. A balance is required between timely implementation and ensuring that significant market changes are fully reviewed and are subject to appropriate consultation.
- 4.10. Ofgem has flagged difficulties in driving through change, and suggested that the SCR process is not sufficiently robust to deliver what is required in this context. Any ability for Ofgem to intervene or to put forward changes must be supported by rigorous analysis, both in terms of financial Impact Assessment but also wider impacts, i.e. what will the effect be on market structures and industry process? Ofgem may not have the necessary expertise to produce the deep market analysis required to progress changes in this way, but the requirement remains. A mechanism could potentially be established with support of code administrators, or a central design authority.
- 4.11. There has been relatively little progress thus far on how the regulatory framework, and industry codes in particular, can evolve alongside the structural changes. There is clearly an opportunity here, although transition arrangements will need careful consideration, given that

non-smart meters will continue to be operated in the market at least until 2020: running two regimes in parallel – one for smart and one for non-smart is not an appealing prospect.

4.12. A working view of the likely end state in terms of industry structures would inform a complimentary vision of accompanying code governance arrangements and allow a roadmap to be set for:

- harmonisation across electricity and gas;
- restructuring and rationalisation of the codes themselves and supporting administration; and
- simplification of code provisions.

At a very high level, and based on the comments above about code structures, it makes sense to separate the retail code arrangements into a single, gas and electricity retail code and, potentially, to consider doing the same for the settlements arrangements (accepting that some ongoing structural differences will persist as a result of the differences between gas and electricity as commodities).

4.13. Ofgem has made the point that the Smart Energy Code, whilst dual-fuel, is not necessarily the right vehicle for a retail code, given that it is entirely devoted to the relationships with the Data & Communications Company. We recognise that the process of moving to a centralised code might not be easy, but the fact that the industry is now expecting centralised registration and same day switching dictates that this is the right time to plan this activity. We could foresee an approach where the new code was established as a “skeleton” with new code administration and governance established, and a timeline for moving specific elements across in line with planned reforms. This is not dissimilar to the incremental approach taken with the Smart Energy Code.

4.14. Conclusions for discussion:

- The industry is suffering from change overload and needs some prioritisation, through professional programme management, to support robust and timely delivery at reasonable cost.
- The Smarter Markets Programme should not simply drive the objectives; it must take responsibility for the full impact assessment – financial and structural.
- The industry design should cover the whole architecture, not simply the systems and processes.
- The required expertise should be procured to deliver a clear design, a manageable delivery programme, and a governance process and design authority to control and direct

5. Conclusions and Way Forward

In summary, we suggest that there are three distinct threads of activity to address the requirement for the industry to deliver strategic change, to reduce market complexity and to address the number of issues that persist in industry code governance:

- Building a strategic vision of how market and governance arrangements will evolve to align with policy goals;
- Development of programme management capabilities to shape and deliver transformational change
- Improving the effectiveness of industry codes

There is positive work ongoing under each of these headings, particularly as part of the Smarter Markets Programme but, like Ofgem, British Gas is of the view that more is needed. This is an area where industry participants cannot be expected to provide the leadership that is required to deliver the optimal outcome. Delivery of the technical changes will be all consuming and in their own right these require stringent programme management disciplines. But for successful and efficient operation the Programme must think beyond process deliverables and design the governance structure that complements the industry design. That requires detachment that is probably beyond the reach of industry participants and should be owned by Ofgem, in our view.

We have laid out below a number of possible steps to address points in this paper, primarily to form the basis of discussion. We would welcome the opportunity to review these with Ofgem.

1	Building a strategic vision of how market and governance arrangements will evolve to align with policy goals	
	<u>Recommendation</u>	<u>Notes</u>
1.1	Creation of an “end state” vision of the downstream market arrangements (structure/governance) post-implementation of Smarter Markets and other strategic policies.	This could build upon work that EUK did at the outset of the smart metering programme, and upon the collateral that the Smarter Markets Programme has already developed on in-scope policy areas, and frameworks to support DSR.
1.2	Creation of a blueprint defining how market structure and code governance will match that end vision.	It is important first to design a fit for purpose industry structure and then to develop the path to its realisation.
2	Development of programme management capabilities to shape and deliver transformational change	

2.1	Establishment of a centrally-managed industry transformation plan	A top level plan setting out the sequencing of industry reforms and supported by all industry participants would provide great clarity. It would also facilitate ongoing dialogue about the timescales and achievability of change, and maintain a common commitment to delivery.
2.2	Creation of a “design authority” capability to maintain a central view of the industry structures and supporting governance arrangements, and to inform and accelerate change development.	We note that prior to market opening work in this area was carried out by a Central Industry Design Authority (CIDA). Given that the scale of change contemplated is similar, there may be justification in re-establishing such a function, which might be populated by seconded industry representatives.
2.3	Establishment of a central industry transformation programme.	<p>We recognise that Ofgem is not necessarily equipped to carry out this function on its own, but there is no doubt that this is needed: both Project Nexus and the Smart Metering Programme (in its early stages) suffered from lack of overall programme leadership and governance. We support Ofgem’s attempts to grasp this issue with regard to Project Nexus, and consider that there are many positive aspects of DECC’s stewardship framework to support smart metering Initial Live Operation which could be utilised. It is essential that this function is independent of industry participants and that it is completely impartial and transparent in its dealings.</p> <p>The central programme would be in a position to coordinate and oversee the progress of suites of code changes where necessary.</p>

3.	Improving the effectiveness of Industry Codes	
3.1	Review and standardise the code change processes and governance unless there is a compelling reason not to do so.	A consistent approach, which as far as possible addresses the issues experienced in this area would be hugely beneficial and could set the template for a future centralised retail code. This may necessitate the raising of modifications for each of the codes. Panel constitution, voting arrangements and funding would be a key part of this.

British Gas has played a leading role in a number of strategic changes that have progressed through the industry code change processes:

Gas Settlement Reform (Project Nexus)

From the outset of industry discussions in 2008 British Gas have taken a pro-active, lead role in ensuring that the scope of the Project Nexus has been forward-looking to ensure positive reform to industry arrangements and positive impacts to consumers.

We have expended a considerable amount of time and resource assisting in the development of these arrangements and continue to be a strong advocate of the earliest possible implementation (currently planned for 1st October 2015).

The significant changes to industry gas settlement arrangements and the centralisation of IGT arrangements are both welcome and long overdue

Theft Reform

British Gas has long been a strong supporter of the introduction of new industry obligations to ensure suppliers are required and incentivised to detect, investigate and prevent energy theft.

We have been working hard with Ofgem over many years to ensure that licence and industry governance arrangements provide the right balance of obligations and incentives upon all parties. This has included taking a pro-active role in the ongoing development of a fit-for-purpose Theft Risk Assessment Service (TRAS), and by positively responding to Ofgem's call for an industry party to develop and progress arrangements for the introduction of a Gas Theft Detection Incentive Scheme.

We are continually seeking to improve industry arrangements associated with energy theft and will continue to work with Ofgem to progress any initiatives or change proposals where improvements can be made.

Data Quality Improvements – Shipperless and Unregistered sites.

British Gas has raised and/or driven through a number of industry changes, in the form of UNC Modifications, to reduce the volumes of shipperless and unregistered sites and increase the accuracy of gas settlement arrangements. We maintained a strong focus on delivering the right outcomes for both the industry and consumers throughout the modification process, regardless of oppositions raised by parties along the way.

Switching Reform

British Gas sponsored the most material set of changes needed to the UNC and invested significant time in stewarding the modifications through the process in a timely manner (including reconciliation of others' issues (notably the non-domestic supplier community)).

The efficient progress of the proposal allowed Ofgem to provide their decision by the end of April 2014, enabling the industry solution to be developed and implemented by November 2014.