POLICY ISSUES PAPER – CONTROL SHEET

Title of Paper	**CRS Management of a Supplier of last resort event.**		
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Issue Owner (Accountable)	Jenny Boothe		
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Status of Paper	1.Initial development and review, 2. Draft for workstream leaders Review 3. Draft for Design Team and User Group Review		
Timing	The final solution architecture must support the Ofgem led supplier of last resort process.		
Dependencies	Solution Architecture option		

Circulation	Workstream Leaders / Design Team / User Group / EDAG / DA Huddle / Website

Issue	This paper addresses the functional requirements required by the CRS to support a Supplier of last resort event.		
Impacts Domestic?	Yes	Impacts Non-Dom?	Yes
Policy Objective (and reference to ToM v2)	This was raised in paragraph 7.2 of the TOM v2: The CRS will support the ability to appoint a Supplier of Last Resort quickly and efficiently. We will examine if the CRS should have functionality to quickly and efficiently split the portfolio of a failed supplier between more than one supplier of last resort.		
Previous Positions on this/related Issues	New issue		
Summary of Recommendations	1. The CRS must have the capability to produce supplier customer portfolio reports 2. CRS has capability support the SoLR taking over the meter points of the failed supplier in an efficient and timely manner. 3. The DCC interaction with the CRS should be as fast as possible to support the 'speedy' update of smart meters.		

Internal and External Engagement	
Business Process Design	

Regulatory Design	
Delivery Strategy	
Commercial Strategy	
DIAT	
Legal	
Other Ofgem Teams	
Meetings at which this paper has been discussed	
Workstream	*Business Process Design*
User Group	
EDAG	
Design Authority	

POLICY ISSUES PAPER – CONTENT

Issue

1. Unlike failures in other competitive markets, when suppliers in gas and electricity markets fail, Ofgem is required to intervene, as gas and electricity supply are essential services.

2. Ofgem's focus when a supplier fails is primarily to ensure continuity of supply for its customers. Secondly, it is to lessen the exposure of other industry parties to bad debt as customers continued to use electricity or gas for which the failed supplier was not paying. One way of achieving this is through the Supplier of Last Resort (SoLR) process.

3. This paper only considers SoLR arrangements; however, there are other ways to deal with supplier failure. Ofgem also has the power to seek an energy supply company administration order where the use of its SoLR powers would be impractical, and this would be the likely remedy for 'larger' suppliers.

4. The SoLR process can be broken down into two basic steps. The first is the decision to revoke a failed supplier's licence and the second is to appoint another supplier (the SoLR) to take over the failed supplier's customers. At the point where the licence is revoked, the failed supplier is unable to trade i.e. gain new customers.

5. Ofgem will only appoint a SoLR where they are confident that this would not significantly jeopardise the SoLR's ability to continue to supply existing customers and fulfil their contractual obligations for the supply of gas and electricity. Where no suitable supplier wants to be a SoLR, Ofgem can use its powers to direct a supplier without its consent.

6. To execute the SoLR process effectively, Ofgem is reliant on information provided by the current registration services. This paper focuses on the functions that will be needed to be provided by the new CRS to support the appointment of the SoLR and the process to enable the SoLR becoming responsible for the failed supplier's customers.

Essential Background

7. Under current SoLR arrangements, Ofgem must gather information from various market participants in order to assess the situation and take the appropriate course of action. This means that Ofgem will need to gather information on the failed supplier's customer portfolio to determine whether to enact the SoLR arrangements.

8. A failing supplier is expected to supply good quality information about its portfolio to enable potential SoLRs to make an informed decision about taking on additional customers. The failing supplier also holds important information that is not privy to other market participants, such as customer billing details.

9. Potential SoLRs also have a regulatory obligation to provide information to Ofgem. The information they must provide includes such matters as how they will operate various

industry processes and agreements and how they will manage the change of supplier process. Ofgem would prefer a supplier to volunteer to be the SoLR but where this is not possible, Ofgem will issue an information request to suppliers to provide certain information so that an assessment can be made on which supplier is best placed to take on the new consumers. SoLRs are likely to be given four to six hours to provide the information requested, depending on the specifics of each case.

10. Electricity network operators and gas transporters are currently responsible for the registration systems and therefore have information provision requirements relating to such matters as a failed supplier's meters, volumes used (supplier portfolio volumes) and details of three main customer groups in each Grid Supply Point Group (the aggregated energy volumes for the supplier off-taken at the relevant transmission connection point), identified by their profile/measurement class.

11. The timing of information provision is an important consideration. Ofgem will serve information requests on the failing supplier and network operators before the supplier goes into receivership, where possible and if it is appropriate to do so. This allows Ofgem to move quickly to the next stage of its procedures, which is requesting information from potential SoLRs.

12. As indicated above, accurate and timely information is critical to the successful execution of a SoLR event. As the new CRS will access both gas and electricity information, it is expected that this information will be able to be gathered in a much shorter timeframe and from just one data source.

13. Currently, Ofgem will seek to effect a SoLR event within a very short period, approximately 24 hours. This involves obtaining the failed supplier's customer portfolio, validating this information against information obtained from the registration service providers, appointing the SoLR and ensuring the failed supplier's meter points have been allocated to the SoLR.

14. Currently, to effect the transfer of responsibility to the SoLR, the new supplier may adopt the market participant identification code (MPID) of the failed supplier or send through registration requests for each of the relevant meter points. However, we have identified that the adoption of MPIDs may not be suitable going forward.

15. Related Issues

16. This section touches on a couple of areas that are relevant to the SoLR arrangements but are being considered elsewhere within and outside of the programme.

Data quality

17. Currently, potential SoLRs would be given the information Ofgem has obtained about the failed supplier's customers. Ofgem obtains the portfolio information from the failed supplier and checks that this data accords with the portfolio data obtained from the current registration systems.

18. The data cleanse strategy, which is being developed as part of the switching programme, will help to ensure the data managed via the new CRS will be as up to date and as accurate as possible.

Smart Metering

19. In the future, a failed supplier may have a significant number of smart meters within its portfolio. Smart meters have the capability to store consumption data and the technical details of the device. To ensure the security of this data the smart meter is subject very stringent security arrangements. When a change of supplier occurs, the meter will only accept commands from a supplier if that supplier's security credentials are on the device.

20. The current process where the SoLR absorbs the failed supplier's MPID will not have any bearing on the SoLR having access to the smart meter so that it can be updated with it credentials. In fact, unless the SoLR's own security credentials are on meter the smart meter cannot be updated.

21. A further issue to be considered relates to smart PPM consumers. The general rule is that when a change of supplier event occurs the losing supplier must put the smart meter into credit mode before the new supplier can take over the meter. If the failed supplier is not willing or unable to do this there is a heightened risk that the consumer could self-disconnect as they will not be able to top up.

22. The Smart Metering Implementation Programme (SMIP) is considering the implications of a SoLR event in relation to the processes being developed for Transitional Change of Supplier (TCoS) (where the DCC updates the smart meter) and Enduring Change of Supplier (ECoS) (where the losing supplier updates the meter) processes.

23. After a SoLR has been appointed, they must initiate the process for taking over the relevant smart meters. The speed at which this will happen will be determined by how soon the supplier initiates the change of supplier process (ECoS or TCoS).

24. The options that are under consideration to support SoLR are set out in Annex 2.

Analysis

25. The SoLR process relies heavily on data from the registration systems and in the future, this data will be held by the Central Registration Service, which, subject to the Programme's final decision may include the switching service and a market Intelligence Service.

26. For the SoLR process to run effectively in future, Ofgem needs to:

(i) Obtain the failed supplier customer portfolio
(ii) obtain a portfolio report of the failed supplier from the registration systems ,
(iii) critically assess this information and decide what should happen next,
(iv) allow potential SoLRs to volunteer,
(v) choose or, if necessary, forcibly nominate a SoLR,

(vi) pass on all relevant portfolio info to them,
(vii) enable the SoLR to notify affected consumers and to make sure they can put in place necessary arrangements to enable the exchange of smart security credentials.

27. The SoLR is obliged via its licence to inform the consumer, within a reasonable time, that they have taken over their supply and explain to the consumer their rights in this circumstance. To expedite these activities, a swift process is required to complete the SoLR process. Therefore the following issues need to be considered in relation to the requirements of the CRS to effectively support the SoLR arrangements:

    a. The CRS' capability to produce timely supplier portfolio reports.

    b. The CRS' ability to effect a large number of registrations within a short period of time.

    c. The availability of the updated CRS information to the DCC to manage the timely exchange of security credentials.

Production of supplier portfolio reports

28. Where the failed supplier has confirmed that, they are calling in (or have appointed) the administrator, Ofgem will issue an information request for their customer portfolio. This will be validated against information obtained from the registration service.

29. Going forward, the CRS will be the primary source of registration data and will need to hold and provide to Ofgem the following minimum details for a supplier portfolio: meter point identifier and associated supplier reference identifier. Other information may be helpful to support the SoLR, for example whether a meter point has a smart or a traditional meter associated with it. The additional data that may be available will be determined by the data model that is currently being developed by the programme.
30. Consequently, the CRS must be able to provide supplier portfolio reports at short notice and in a format that is readily useable by Ofgem so that the validation of the failed supplier's portfolio can be undertaken.

Management of a large number of registration request

31. Recent figures[1] indicate that on average there are approximately 350,000 domestic gas switches per month and approximately 450,000 domestic electricity switches per month[2]. Historically, the average number of customers for a failed supplier subject to the SoLR process is about 60,000 (potentially 120,000 meter points). Although we cannot be definitive about the size of a 'smaller' supplier, we are seeking to ensure that the CRS has the capacity to manage the transfer of a large number of meter points from

[1] Figures taken from Ofgem published retail market indicators
[2] Pure numbers of non-domestic switches are not currently available however the switching rates can be found in the published retail market indicators

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one supplier to another in a short period of time, whilst continuing to manage its business as usual activity.

32. There are a number of options that could be considered to speed up the transfer of the failed supplier meter points to the SoLR. These are:

    a. Option 1 - Do nothing: allow the suppliers to choose the process by which they take over the meter point; absorbing the failed supplier's MPID or registering the individual meter points.
    b. Option 2 - Require the suppliers to submit complete registration requests for each meter point.

Availability of the CRS to the DCC

33. DCC determines which supplier should have access rights to the smart meter by reviewing data supplied by network operators (as the current owners of the registration service). Going forward, the DCC will obtain this information from the CRS.

34. Currently the SMIP is considering the process to support the exchange of security credentials when a consumer chooses to switch suppliers. A temporary arrangement (TCoS) has been developed that will be in place for a period of time with a view to migrate to the enduring arrangement (ECoS). The SMIP has considered a number of options to support a large number of smart meter switches in a short period of time, should a SoLR event occur. These are listed in Annex 1.

35. It is not for the switching programme to determine which security credential exchange mechanism option should be taken forward. However the energy supply licence requires the SoLR to give notice to its new customers of the SoLR event within a reasonable period of time. Therefore any approach should not restrict or extend the period over which the SoLR's ability to meet this obligation.

36. It is noted that once the SoLR becomes accountable for the failed supplier's meter points, it will need to co-ordinate when their credentials are ready to be placed on the meter devices. As DCC is responsible for managing access control, the updated CRS must be readily available to the DCC for it to perform this function.

37. It is proposed that how the CRS interfaces with the DCC will be considered during the DLS phase of the programme and that this interface must take account of the DCC having immediate access to the CRS to support the timely execution of a SoLR event.

Analysis

33. **Option 1:** This option offers flexibility for the SoLR to choose the mechanism to transfer the meter point into their portfolio. In practice, it means that the SoLR could take over the failed supplier's meter points by adopting their MPID. A benefit is that the SoLR

would not need to send a large number of registration requests that the CRS would have to process. No formal registration request would need to be submitted by the SoLR.

34. If the situation arose where there are multiple SoLRs, Ofgem would need to indicate which SoLRs are taking over which meter points and the MPIDS would need to be renamed to ensure they have been assigned appropriately.

35. However it has been identified that the absorption of MPIDs may not be an option for some supplier's systems but more importantly this mechanism will not enable the SoLR to access the smart meter.

36. Some supplier systems have been configured so that it will not accept an MPID that is not already linked to the SoLR. We understand that some internal systems will automatically reject an MPID if it is not already configured by the SoLR's systems.

37. A more critical concern is that the absorption of an MPID will not enable the SoLR to access the smart meter. The absorption of the failed supplier's MPID does not automatically grant access rights to the meter because of the security encryption on the meter the device will know that the command is not being sent by the failed supplier but from another supplier. As smart meters are considered to be national critical infrastructure there is no scope nor desire to change this arrangement.

38. **Option 2**: This option would require the SoLR to have prepared a large number of registration requests, ready to be issued to the CRS. As indicated previously, this could amount to a significant number of switches that both the SoLR and the CRS would need to accommodate whilst continuing to manage their respective BAU activities.

39. This process is may not be executed in a timely manner as there is no prioritisation of registration requests being accommodated within the CRS. Further, in submitting a registration request in the usual manner the supplier would need to appoint/de-appoint their agents and the objections process will need to be suppressed.

40. However, given the security arrangements applicable to smart meters the absorption of the failed supplier's MPIDs would be a redundant exercise. In addition, if some suppliers system cannot accommodate the new MPID the most robust and secure way forward would be for suppliers to submit complete registration requests with their supplier identifier included within the request.

41. The current MRA guidance on managing a SoLR event suggests that the SoLR can utilise the incumbent meter operators to avoid undertaking an agent appointment / de-appointment exercise. This approach can readily be supported as the agent identities will be available on the current ECOES and DES systems and going forward will be available via the CRS and or the MIS(subject to the final solution).

42. This option will require the management of a large number of registration request over and above business as usual this is not necessarily an unusual event. Collective

switching will require the registration service to undertake bulk registrations from time to time therefore the CRS will need to have the capacity and capability to manage this arrangement. Also, a SoLR event is essentially a crisis management scenario which the CRS will need to accommodate.

Recommendations

43. Given the considerations in sections 33 to 41 it is proposed that:
    a. The SoLR should send through full registration requests to adopt the failed supplier's meter points.

    b. The CRS must include the functionality to readily produce a supplier portfolio report at short notice following an information request from Ofgem.

    c. The updated CRS should be readily available to the DCC so that it can undertake its access control for smart meters and enable the SoLR credentials to be placed on the device as soon as possible.

Justification

44. The new CRS arrangement is likely to be implemented when a significant number of smart meters have been installed. Where a supplier with a large smart meter portfolio fail timely and secure access to these meters will be fundamental to maintain the integrity of this critical national infrastructure. It is clear that the absorption of the failed supplier's MPIDs will not grant the SoLR access to the meter therefore a full registration request will need to be submitted with the SoLR's MPID included.
45. As with the current registration system, the new CRS will need to be able to produce supplier portfolio reports so that Ofgem can undertake the validation of the failed supplier's information.

Annex 1

DECC consideration of SoLR implications for smart meters

Department of Energy & Climate Change

Supplier of Last Resort

Options analysis