

Draft reform packages and RFI Approach

EDAG

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ofgem

- We welcome views on our proposed reform packages and their components
- We also want to test our initial thinking on the RFI
- This presentation includes:
 - Overview of the proposed reform packages
 - Initial views on our RFI approach
 - Next steps
- To support this presentation we have also provided a more detailed excel spreadsheet that explains how each of the policy issues and reform options examined in the Blueprint Phase have been incorporated in the reform packages.
- The spreadsheet also provides a high level summary of the impacts of the reform packages for specific stakeholders (and where we expect to target the RFI)

- We welcome industry's strong support in developing and shaping reform options for new business processes, system architectures, delivery strategy, commercial arrangements and the regulatory framework
- We are now putting the preferred options together into three reform packages. We refer to this as Design Baseline 1 (DB1)
- We want to refine DB1 through a Request For Information (early next year) alongside a do nothing option
- We will continue to develop and test the draft reform packages and RFI with industry prior to publication
- We are following HM Treasury's Methodology for producing business cases for major reforms such as the Switching Programme. Alongside the RFI, will publish the first iteration of the Business Case – the Strategic Outline Case
- We will use the RFI responses to refine the reform packages and inform our detailed economic assessment of each. We will consult on our updated reform packages (mid-2017). This will include the second iteration of the Business Case – The Outline Business Case

REFORM PACKAGES

DO NOTHING

No system or process changes

No improvement to reliable switching

21 day switch

MINIMAL REFORM

Use existing systems

Move to calendar day operation

One off data cleanse to improve reliability

Key process changes to deliver 3 day switch

MAJOR REFORM

New central switching service (limited data)

Enduring reliability improvement to MPxN/address data

Harmonised and simplified next day switching process

FULL REFORM

New central switching and market intelligence service

Improvement to broader range of switching data

Harmonised and simplified next day switching process

Potential consumer benefits

Scale of challenge

Description

- This is our counterfactual and describes the expected situation where the Switching Programme stops at the end of the Blueprint Phase and does not deliver any reforms

Likely impact

- No change to switching speed (21 days)
- Potential improvement to reliability from CMA remedy on PCW access
- Industry may choose to address issues around ETs given higher impact for smart meter customers
- Poor return for existing investment in developing reforms
- Does not meet consumer, government, Ofgem and industry expectations

Design considerations

- Include expected new releases and developments already in progress or planned.
- These include Project Nexus and CMA remedy to provide PCWs with access to ECOES and DES

Issues

- What assumptions should we make on reliability improvements?
- Are there any other changes that we should be taking into account in defining the counterfactual?
- Industry will be asked to provide information to allow us to understand costs and impacts of counterfactual

Description

- Retain existing systems architecture
- Switching process operate on calendar day basis
- For gas, reduce confirmation window to 1 day
- Implement cooling off process and 1 day objection
- Not propose to add additional data items to MPAS and UK Link (eg non-domestic flag)

Likely impact

- Delivers 3 day switching capability
- Reliability benefits from one-off data cleanse
- Potential for quicker implementation and lower cost and benefits than options 2 and 3

Design considerations

- Changes needed to existing MPRS and UK Link systems
 - Move to calendar day
 - Batch processing over a single night
- Electricity suppliers and gas shippers/suppliers need to adopt new objections and cooling off processes and move to calendar day operation

Issues

- What assumptions should be made on reliability benefits (and enduring nature of these)
- Will other supporting organisations (eg metering agents) be impacted by change to calendar day operation?
- Are there any other reforms that should be included in this package?

Description

- A new centralised gas and electricity Switching Service will replace MPAS and UKLink switching functionality
- Switching Service will hold core data elements
- Harmonised and simplified business processes support start of next day switching
- Data cleanse use of GB address list and Data Stewardship roles improves reliability of switching
- Online enquiry service continues to be provided by ECOES and DES
- UKLink and MPAS continue to host remaining data (eg for settlement)

Likely impact

- Delivers harmonised, more reliable and start of next-day switch capability
- Higher delivery cost and risk but higher benefits for consumers

Design considerations

- The Switching Service could be based on a new technology platform, or provisioned from development of an existing industry asset.
- XML messaging layer passes switch information between market participants, with real time transaction processing

Issues

- The role of relevant data stewards and maintainers must be acknowledged and enforced
- Migrating data from existing systems is a considerable, but not insurmountable challenge

Description

- New Switching Service as described in Reform Package 2
- MIS will be implemented as a central database of associated switching information, presented centrally but sourced from supporting participants systems

Likely impact

- Delivers harmonised, more reliable and start of next-day switch capability
- Higher delivery cost and risk but higher benefits for consumers
- A single central definitive repository for the essential data needed to reliably perform a consumer's switch

Design considerations

- MIS provides a consolidated, single source of switching data available to all market participants.
- MIS could be based on a new technology platform, or provisioned from development of an existing industry asset.
- XML messaging layer passes switch information between market participants, with real time transaction processing

Issues

- The role of the relevant data stewards and maintainers must be acknowledged and enforced
- Migrating data from existing systems would be a considerable, but not insurmountable challenge

- Welcome EDAG's views on the high level reform packages and the detailed spreadsheet
- Are there areas that we have missed or require clarification?
- We propose to build the detail in this spreadsheet to support the RFI. Does this spreadsheet, together with a data model and the detailed business processes in Casewise provide you with the information needed to support the RFI?

RFI APPROACH

Now that we are finalising the short list of reform packages, we are beginning to plan our approach to the request for information (RFI) in January. We would welcome your input into our thinking at this early stage on the following areas:

- Who we plan to send the RFI to
- The type of information we will ask for and the form it will take
- The information and assumptions we will need to provide to inform a consistent set of responses
- How, and when, we plan to engage with stakeholders to support the RFI

We are currently planning to submit our request for information to the following stakeholders:

- Active gas and electricity suppliers
- Gas distribution networks (including independent gas transporters)
- Distribution network operators (including iDNOs)
- Xoserve
- Code bodies
- DCC
- Electralink
- TPIs

Are we missing any key affected stakeholders that won't be appropriately captured by responses from the above?

What type of information will we be requesting?

- We recognise that the proposals will have different impacts on different stakeholders. The questions we ask will be tailored to groups of (and some individual) respondents.
- We are favouring a top-down industry led approach, over a bottom-up Ofgem led methodology. This means we will be asking for estimates of costs and benefits of whole processes or changes, rather than asking for a very large amount of granular detailed assumptions to enable us to build the estimates ourselves.
- We will largely be asking for annualised estimates of costs and benefits, based partly on assumptions provided by Ofgem for annual volumes of particular activities or customer outcomes. However, there may also be some activities or processes that we request unit costs for.
- As with the previous RFI, we will request cost information separated by capital expenditure (transition costs) and operating expenditure (ongoing costs).
- We will seek costs and benefits of a number of separate components of the reform packages, then build the total packages ourselves, with the intention of removing duplicated effort for stakeholders where possible. We will be seeking advice from stakeholders on which 'components' can be viewed in isolation, and which ones will vary significantly depending on the wider reform package design.
- We will not just be focused on cost. We will be isolating and requesting specific information on particular benefits, such as anticipated efficiency savings from the harmonisation and automation of processes, and potential impacts relating to reliability.
- It is important that we gather detailed cost information for the counterfactual so we can assess the additional impact of each reform package against the same baseline.

What sort of information will we provide?

To support the RFI, we will provide the following information:

- Detailed descriptions of all elements of the reform packages, including detailed business processes, will be set out as part of Design Baseline 1. This will be published within the Strategic Outline Business Case at the same time as the RFI. Our proposals here have been detailed in the first part of this presentation.
- Alongside the RFI, we will also provide a commentary on assumptions to take regarding the state of the world under the counterfactual and each reform package. For example, which other reforms to assume will have already been introduced under the counterfactual.
- We will also provide a set of assumptions to assist with forecasting, for example switching volume information.
- Roles and responsibilities of each body or organisation, as well as the ways in which we expect the proposals to affect them.
- Details on the intended 'go live' date, appraisal period etc.

We intend to consult extensively with all affected parties on how best to design and communicate the RFI. This will include:

- 12-13 October - communicate reform packages and early thinking on approach to RFI to SPDG and EDAG.
- 27 October - reform packages to be signed off by DA.
- 7 November – Ofgem is hosting a seminar to provide a stocktake of work completed on the Programme to date, to introduce the reform packages, and to outline the planned approach for the RFI. Invites are being sent out to industry stakeholders. The seminar will be used to seek feedback and input into the RFI approach.
- November-December – test RFI with nominated stakeholders
- December – share relevant sections of the RFI with stakeholder groups
- January – RFI to be published, with responses sought within four weeks. Ofgem will be open to a continuous dialogue with stakeholders throughout this period if it would be helpful.

If you haven't done so already, please could you nominate a lead contact for Ofgem to communicate with on the RFI.