

DRAFT Minutes of the External Design Advisory Group (EDAG) meeting

Meeting 14 December 2017

Introduction

1. Rachel Clark (RC) introduced the meeting and welcomed EDAG members. A list of attendees is available at the end of this document.

Minutes and Actions

2. Andrew Wallace (AW) reviewed the actions taken from the last EDAG meeting on 30 November.
 - Workstream leads had confirmed that they have considered, or plan to consider, the responses to the September consultation in the context of updating their risk and issues logs.
 - The intention was that the annulment process should be able to be used where there is misselling and the customer did not realise that they had entered into a new contract (eg where they thought that they were signing for more information). It was not expected that the process should be used for disputes over the term of the contract, for example, the tariff that the customer signed up to.
 - The rules on the use of the change of occupancy (CoO) flag would be picked up by the Regulatory Design workstream.
 - Switching Programme defined terms would be published next year with the caveat that they were had been developed by the Design team and would be subject to change as they are translated into new licence and code requirements.
 - Ofgem were retaining the policy of meter technical details and MAP ID being sent by MOPs to ECOES rather than MPRS. EDAG advised that basic validation systems should also be transferred from ECOES to MPRS.
 - Industry carried over the action to provide Ofgem with advice that they had received on ensuring the current consumer enquiry service complied with GDPR requirements.

Action: Industry

3. On the Ofgem supplier hub project, RC said that Ofgem had published a call for evidence. The work was focused upon improved retail market arrangements to help customers benefit from innovation and better protect those that are disengaged. The call for evidence will close on 22 December. Ofgem are currently at the scoping stage of understanding potential barriers and constraints. Ofgem will ensure that the new switching arrangements are sufficiently flexible to facilitate potential innovation and change coming out of this project.

Extension of DCC licence obligations

4. The presentation summarised responses to the proposal to modify the DCC's licence to require it to support DBT and early years of operation of the CSS. Natasha Sheel (NS) explained that DCC's current obligations related to the transitional phase up to the point of contract award. As the procurement body, it was considered that DCC was well placed to mitigate implementation risks associated with the CSS.
5. NS said that respondents generally agreed that the body procuring and negotiating the CSS contracts is best placed to manage them during DBT and early years of operation. Some respondents did not feel that this was the most suitable option during the enduring phase. NS noted that this enduring obligations were not covered in the September consultation proposal. Some wanted a clear transition path for moving contracts to RECCo.
6. NS said that respondents wanted to see robust programme and system assurance, clearly outlined exit criteria and strong and enforceable sanction and incentive regimes established. NS said that respondents wanted Ofgem to maintain oversight of the programme during the DBT and ILO phases.
7. Nicola Garland (NG) outlined the overarching Design, Build and Test phase roles and responsibilities structure of the programme. Underlying the model is an assumption that Ofgem would take on an engaged sponsorship role in the programme. It was proposed that DCC would procure and manage a number of procurement lots including the CSS, communications, service management, the address database and, potentially, the CES (jointly referred to as the CSS providers). The programme would require a systems integrator to ensure that the procured systems integrate with current switching systems such as UK Link, MPRS and associated systems. NG said that the systems integrator would act as a technical integrator and would therefore require an understanding of the procured systems, and how these systems would interact with other technical systems.
8. NG noted that the DCC do not have authority over UK Link and MPRS. The System Integrator will be the day to day point of contact for the existing system providers, however any significant issue between the SI and existing providers and CSS providers would be escalated to Ofgem for resolution. The DCC will be the contract manager of the CSS providers so that internal contractual or low level issues between the CSS providers can be escalated to DCC for final decision as contract manager. For example, Ofgem would not be involved in a dispute on resourcing that did not impact time frames and the ultimate design.
9. NG said that the core systems assurance provider would be an independent party procured and managed by the DCC. Their role would be to provide independent reports to the programme sponsor on the progress of DCC, existing system providers and CSS providers against the industry plan. Ofgem propose that the DCC will be best placed to procure and manage the core systems assurance provider.

10. NG said that MAPs and agents would be placed outside of the formal assurance scope of the programme. Ofgem would be able to assess agent readiness through their contracted suppliers and MAPs had commercial incentive to be ready at go-live and Ofgem's current understanding is that their failure to be ready would not impact other parties. NG said that Ofgem's current intention is to procure and manage the licenced party assurance but Ofgem would source funding from licenced parties. The means of sourcing this funding is still under consideration.
11. NG moved on to explain the roles of the E2E systems coordinator and programme assurance (now referred to as the Programme Coordinator). NG said that these have been grouped together because Ofgem believe that there would be economies of scale in managing these functions through one role. There are four functions that this role would provide, which include providing a programme management office, advising the SRO on programme matters, providing assurance over the programme and coordinating industry's interaction with the programme. NG said that, for example, a dispute between UK Link and the CSS would be escalated to the E2E systems coordinator in the first instance, with the final decision being made by the SRO.
12. In response to a question on how Ofgem will manage interaction between the five sets of independent consultants and/or governing bodies, NG said that the E2E systems coordinator would act as an agent for Ofgem who, as the governing body, can have matters escalated to them. All other parties would sit under Ofgem and the E2E systems coordinator in the governance hierarchy. This presentation was to provide context for DCC's licence extension and their proposed role during DBT, further clarification on the proposed roles and responsibilities will be available when it is brought to SPDG.
13. When asked if the programme would have a steering group, NG said that a governance model would sit above the proposed programme roles hierarchy, which would include a SRO advised by the Programme Board as a decision maker and a CEO forum above this with 'direction of travel' guidance role. Ultimately, the programme would seek to operate on a consensus based model with the SRO as the ultimate decision maker.
14. EDAG requested clarification on the difference in roles between the systems integrator and the E2E systems coordinator and noted that it is problematic not to have architects that consider how things will be used at a process level. NG said that, at a high level, the systems integrator is a technical consultant that understands how to integrate different systems. The E2E systems coordinator does not need that level of understanding but will need to coordinate the players in a complex programme. The E2E systems coordinator should also be able to challenge the systems integrator on not meeting a milestone or their actions on certain aspects of the programme and so the two parties act as a check and balance on one another. NG said that a design authority would sit as a part of the governance structure and Ofgem would hold the pen on design during delivery.
15. NS said that, as proposed in the September consultation, the DCC charging arrangements will remain within the SEC until the enduring REC is established. NS said that a price control regime for DBT and early years of operation will be set out and consulted on in parallel to the licence

modifications. Any proposed price control framework would include a set of incentives that would place a material level of margin at risk.

16. NS explained that Ofgem will now coordinate across workstreams and forums to develop the requirements that should be placed on the DCC during DBT and early years of operation. Work for a consultation on draft licence modifications is planned for May 2018 which will run in parallel with the regulatory consultation on the REC. Following feedback and review of this work, a statutory consultation would be published at the end of 2018. The May consultation would cover DCC's price control whilst the consultation to direct the margin and incentives on DCC would be end 2018. Ofgem aim to have the full licence modifications established following the 56 day standstill period prior to contract award (currently planned for February 2019). Direction on margin and incentives would be put in place in parallel with these timelines.
17. There was discussion on the role of Ofgem and REC during systems testing. RC said that the REC will come online in various stages of the process but will not be developed enough to take on an active role during the DBT phase. Ofgem are committed to ensuring continuity in ownership of governance. NG said that Ofgem plan for the REC, at some capacity, to sit within the delivery governance to ensure that it has sufficient knowledge of delivery at the point of ownership.
18. RC confirmed that only Ofgem will have the authority to make a 'go-live' decision. She said that decisions on the end of the transition phase will also sit with Ofgem as it is ultimately a regulatory decision rather than a technical one.

Proposals for updating the Impact Assessment

19. Tom Fish (TF) explained the most material challenges identified in response to the impact assessment (IA), how Ofgem intend to address these issues and the effects this will have on the IA analysis. Tom Fish (TF) said that respondents broadly supported the assessment of the impacts of each reform package or did not offer views. He said that many of the strongest challenges related to developments in the market since publication, rather than the underlying methodology. Those who offered qualified support provided constructive feedback on how Ofgem could ensure that the analysis was more robust. TF said that changes to the IA are unlikely to have significant effect on the analysis, so Ofgem do not expect to amend their view that RP2a is the preferred package and should be taken through to implementation.
20. TF explained that there was general support of Ofgem's assessment that RP2a provides the best value option to reform the switching arrangements for consumers. He said that there was some support for RP1 but little or no support for RP2 and RP3. Ofgem will therefore exclude these options from the updated IA that is due to be published in early 2018.
21. Andrew Wallace (AW) said that there was broad support for Ofgem's assessment of industry and public sector costs. He explained that the key challenges fell into six main themes: cost uncertainty, delivery risk, transitional switch speed, duration of the assessment period, barriers to entry and distributional impacts.
22. The following additional comments were made during the meeting:

- Jane Eccles (JE) disagreed with the view from one respondent that DCC had an incentive to submit low costs at this stage of the programme. She noted initial costs submitted have since decreased in light of experience and improved information.
- EDAG said that Ofgem should provide clarity in the IA on other non-quantifiable elements driving the decision between RP1 and RP2a but noted that the challenge of justifying a major infrastructure investment is that the benefits can only be visualised once they are delivered. RC confirmed that it is the strategic long term benefits that drive the decision but an understanding of direct costs and benefits is still necessary to ensure that Ofgem are comfortable making that decision.
- There was a discussion on the delivery risk. EDAG said that the more market agents and IT systems involved, the greater the risk of them not aligning and noted that there is a greater risk associated with a big bang approach compared to incremental change. AW said that the sensitivity analysis will aim to expose the likely impact of a delivery risk.
- In response to a challenge on the risk of the programme not hitting its delivery date, RC noted that 2020 is an indicative date. Ofgem intends to generate a detailed left to right plan in quarter 1 2018 based upon the implementation strategy that will set a better informed delivery date. She said that if this date is different from the indicative timetable, Ofgem will consider how to accommodate the necessary requirements. In response to EDAG discussion, RC said that Ofgem will confer with providers of key industry systems when generating the plan and noted that the sensitivity analysis in the IA considers the impact of delay. She asked for input from suppliers to identify where pressure points might be so that Ofgem may understand which stages of the programme place the greatest amount of difficulty on suppliers. Colin Brooks (CB) said that Energy UK aim to share this information by the end of quarter 1, 2018.

ACTION: Industry/Energy UK

- EDAG raised concerns over the flexibility of the systems and the ability to account for future innovation and business models. TF said that this is being considered in the narrative around non-quantifiable benefits and Ofgem are not trying to design in specific potential innovations, instead Ofgem are seeking to ensure that the design does not inhibit innovation and is easily adaptable. RC said that, based upon the RFI, there is limited replacement cost in the counterfactual for the current systems, therefore there is an assumption that those systems can last as long as they have done already, plus the assessment period.
23. TF explained that respondents generally agreed that Ofgem's assessment of the direct benefits of the reforms provided a sound basis for making a decision on a preferred reform package. A large number of consultation responses referenced the price cap announcements, which would affect the future savings available from switching. He said that modelled consumer bill savings, in particular from any increased engagement in the market, would be affected.

24. TF said that the market wide price cap would be the only of the current price caps that could have a significant impact on Ofgem's switching analysis, and that given its expected temporary nature may only be in place for a short period following introduction of the new switching arrangements. He talked through an illustrative profile that the price differentials in the market could follow over time, and explained the impact on the analysis of making such assumptions. TF explained that a number of potential assumptions and approaches were under consideration and sought feedback on the assumptions presented.
25. EDAG questioned whether there would be an increase in prices following the removal of the price cap. RC noted that the assumptions in the IA concern price differentials rather than price, and that a reduction in prices by the most efficient suppliers could cause a widening of price differentials. . She said that Ofgem does not have a view on the effects of a price cap and the assumptions used for the switching IA are intended to be conservative assumptions. TF said that regardless of the assumptions ultimately adopted, the default tariff would have a fairly modest impact on the IA given the temporary nature of the cap, so there is no material impact on the programme narrative.
26. TF said that Ofgem had received challenge from consultation respondents that baseline switching volumes should be adjusted downward for the period that the price cap will be in place. TF noted that it would appear suitable to re-baseline switching volumes at 2017 volumes or higher, incorporating a temporary lower level for the period the price cap is in place. However, in the absence of data on how costs estimates might vary in response to this adjusted baseline, or any clarity on how the price cap will be designed, Ofgem are reluctant to make this change and therefore intend to retain existing assumption of 2016 switching volumes throughout the appraisal period, while recognising that this is likely to understate the net benefits to consumers.
27. In response to a question, TF said that Ofgem do not yet have visibility of the impact of the price cap on switching volumes for PPM. RC noted that Ofgem are seeking this data.
28. TF said that a couple of responses drew attention to a supply licence condition that states that, where a consumer requests a switch within 20 days after their fixed term has ended, suppliers must continue to charge them the fixed term rates until the switch has gone through. He said that Ofgem have therefore increased the assumption for the proportion of consumers avoiding prolonged periods on the most expensive default tariffs from 6% to 10%. Ofgem have also decreased the assumption for the proportion of switches that do not request in time to avoid the SVT from 60% to 15%, to reflect that they have longer to request the switch than was previously accounted for.
29. TF explained that there were some issues on reliability benefits that were now being addressed. He said that Ofgem had overstated the impact of data quality on switch rejections. Also, Ofgem had taken an inconsistent approach to date to valuing the harm caused to consumers by a delayed and an erroneous switch. Ofgem propose to place a value of £30 on the harm and inconvenience to consumers caused by delayed switches.

30. TF said that respondents generally agreed that Ofgem's illustrative analysis of the indirect benefits provides a reasonable assessment of the potential scale of the savings that could be made by consumers through increased engagement in the market. TF said that making any changes to the assumptions to reflect the price cap announcement would cause a reduction in the numbers but will not alter the overall conclusions for any of the reform packages.
31. TF said the IA acknowledges that there is a cost to suppliers of processing additional switches. A consultation response specifically highlighted it may not be realistic to assume that these costs are absorbed by suppliers. TF clarified that Ofgem expect suppliers to have factored these costs into their pricing strategy in advance of the new arrangements.
32. TF said that respondents generally agreed with Ofgem's assessment of the wider benefits of the reform package but raised there is a risk that Ofgem are investing in a future flexibility that will not be utilised and existing systems that are not fully explored. TF clarified that Ofgem are not looking to 'design in' specific innovations but consider innovation to be easier and cheaper to achieve with a newer, more flexible central system with one central set of governance arrangements. TF said that consultants are currently reviewing the potential for existing systems to deliver all the requirements of RP2a, including their ability to enable future innovation and the findings of this work will be taken into account.
33. TF explained that respondents generally agreed that Ofgem's assessment of the net impacts for consumers provides a sound basis for making a decision on a preferred reform package. The impact assessment said that if the gross costs were smoothed across the appraisal period the annual cost per dual fuel consumer would be around £1 per year. TF said that there was a key challenge that smaller suppliers at least will not be able to afford to smooth the costs, and will need to recoup them as they are incurred. He said that this is a fair challenge, and the analysis was intended to illustrate the scale of the costs per consumer, rather than be an indication of how the industry would finance the changes. Ofgem intend to present a more nuanced piece of analysis in the revised IA, showing the annual cost per consumer during the transition, and then during the ongoing steady state.

Update on industry led MIS and PCW API service

34. Andy Miller (AM) provided an update on the MIS and PCW API service, its development approach and governance structure on behalf of Xoserve and Gemserv. He explained that Xoserve and Gemserv are working collaboratively in order to understand the opportunity to provide services compatible with industry requirements and the Ofgem Switching Programme. A Joint MIS Development Group (JMDG) had been formed with representatives from gas and electricity industries as well as Ofgem.
35. AM said that a programme board has not yet been established and that any business cases will require external funding by the users of the service. Hence, industry has a key role in determining the topics for review, solution options available, associated costs and whether industry is willing to fund projects. When questioned on how the JMDG's exploratory work is being funded, AM explained that organisations fund individuals for their work and time but does not fund design work. Therefore the group is not currently undertaking design work.

36. In response to a question on replacing ECOES and DES with a single service, AM supposed that it would be useful for users to have dual fuel information on a screen view since most operators are dual fuel suppliers in industry. However, the MIS development group would have to consult the whole of industry to ensure that they weren't removing a system that is required by some users. He said that when an idea is presented, the group must consider whether it improves the reliability of switching and then consider whether any existing systems can be enhanced to accommodate for the idea.
37. AM said that the first JMDG was held on the 27 November. The next meeting is scheduled on the 8 January to review a consultation letter that would be issued to industry to seek ideas on what could be included within the services provided by the MIS. The consultation was expected to be issued in January.
38. He said that a dual fuel API service is being developed for PCWs. Consideration is being given to extending this to suppliers. A modification to the UNC and IGT UNC to permit this was currently under development.
39. In response to a question, AM confirmed that the MIS programme board will work effectively as a contract management group and said that the representatives are due to be decided at the January contract manager meeting. Currently, Alex Travell is the MEC representative and an equivalent rep is required for gas. AM commented that individual representatives may be required for domestic and industrial and commercial sectors. In response to a question on GT representation, AM said that the MIS programme board is likely to evolve over time and the current focus is on ideas to improve the reliability of switching. He said that there is a plan to create a Huddle style area for ideas to be published and made visible to industry.
40. In response to a question, AM said that a better understanding of the MIS requirements is needed before determining the appropriate governance structure and funding requirements.
41. EDAG felt that it would be important that Ofgem maintain clear visibility of the MIS to avoid the risk of developments impacting the Switching Programme, becoming a stranded asset or a major industry programme without sufficient oversight. AW said that the Switching Programme expect to have a member sitting on the MIS programme board.
42. In response to a question on the PCW API service, AM said that Xoserve and Gemserv had developed a machine to machine capability to allow PCWs to submit enquiry requests via the API service. These request would be managed through an aggregator role that sent API requests to the respective gas (UK Link data store) and electricity (ECOES) databases. Two responses are then returned, and a collective response is received by the PCW.
43. A question was asked on how the API service will be governed under multiple codes. AM said that the aggregator is jointly appointed by Xoserve and Gemserv to provide aggregation services, hence there is a tripartite agreement in place between Xoserve and Gemserv and the aggregator

party. There is a contract in place between the code and the administrators. There is also a contract between Gemerv and the PCWs which references Xoserve as a party that is supporting the provision of the service. The PCWs will be charged on a banding arrangement in which they purchase a volume of calls that they can make within a given period of time which will be audited as a part of the requirements under the UNC.

AOB

44. AW said that the Switching Programme will be publishing the OBC and revised IA in early 2018. The next SPDG was also due at the beginning of 2018.

45. Ofgem agreed to consider if a forward work plan could be published to help stakeholders plan their support for the programme.

Action: Ofgem

46. In response to a question on whether EDAG would change into a delivery group, James Crump (JC) said that working level stakeholder engagement during the Enactment phase was being reviewed. Ofgem were looking at how best to efficiently coordinate input across the various work areas. However, there is not expected to be a replacement for EDAG.

47. AW closed the meeting and, being the last EDAG meeting, thanked members for their support and contributions.

End

Attendee list

Ben Trasler – Opus Energy
Jeremy Guard – First Utility
Martin Hewitt – UK Power Networks/ ENA
Colin Brooks - Energy UK
Paul Saker – EDF Energy
Martyn Edwards – SSE
Gavin Jones – Tech UK
Andy Miller - Xoserve
Jane Eccles - DCC
Justin Andrews – Elexon
Andy Knowles – Utilita
Graham Wood – Centrica
Charlotte Hooker – Ofgem
Rachel Clark – Ofgem (Chair)
Andrew Wallace – Ofgem
Tom Chevalier – AMO
Tom Fish – Ofgem
Francesca Caputo – Ofgem
Nicola Garland – Ofgem
Natasha Sheel – Ofgem
James Soundraraju – Scottish Power
Jenny Rawlinson – BUUK & AIGT/CAN
Alice Brett – Citizens Advice