

Switching Programme: Proposed modifications to regulation and governance

Consultation

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Overview:

This document sets out the proposed governance for the new switching arrangements. We propose to introduce a Retail Energy Code (REC) to enforce governance between the Data Communications Company (DCC), in its role as provider of the Central Switching Service (CSS), and of users of that service. We propose to modify the licences of the DCC, all gas and electricity suppliers, as well as the electricity distributors and gas transporters, requiring their accession to and compliance with the REC.

The fundamental requirements of the REC will be set out in the gas and electricity supply licences. We will also modify the Smart Meter Communication Licence (DCC licence) to reflect its role being extended from procuring the central switching services only, to oversight of the design build and testing of associated systems, through to the early years operation of those services once we exit the switching programme. This will also require changes to the DCC price control framework.

We also propose to insert an obligation into all licences that would require the licensee to cooperate in the delivery of any programme designated by the Authority as a Significant Code Review (SCR). This is to ensure robust and holistic governance of all participants' activities to deliver those systems promptly. This document will primarily be of interest to energy market participants and those providing centralised services to the energy industry.

We welcome your views on our proposals. This consultation closes on 31 July 2018 and responses should be sent to switchingprogramme@ofgem.gov.uk

Context

The Switching Programme is one initiative within a broader set of reforms that aim to encourage consumers to engage with the energy market, and to improve their experiences of doing so.

The rollout of smart meters, reform of electricity settlement arrangements, work to facilitate a transition to a more flexible energy system, and other projects have the potential to transform the retail energy market. Our Switching Programme reforms are being developed to align with, support, and leverage the benefits of these related initiatives. Our work is also aligned with the Competition and Markets Authority's (CMA) energy market investigation remedies, which aim to improve the functioning of competition.

Associated documents

Ofgem, [Switching Programme: Outline Business Case and Blueprint phase decision](#), February 2018

Ofgem, [Delivering Faster and More Reliable Switching: proposed new switching arrangements: Consultation stage impact assessment](#), September 2017

Ofgem, [UK Link and the proposed Central Switching Service](#), July 2017

Ofgem, [Strategic Outline Case](#), January 2017

Ofgem, [Moving to reliable and faster switching: Switching Significant Code Review launch statement](#), November 2015¹

¹ Further documents can be found in the associated documents sections of the documents noted above.

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Executive summary

We are committed to making the energy market work better for consumers by improving their experience of switching, leading to greater engagement in the retail energy market. We are doing this by designing and implementing a new switching process that is reliable, fast, cost-effective, and harmonises processes across gas and electricity. This will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

In February 2018 we published an Outline Business Case setting out our decision to move forward with the introduction of a harmonised dual fuel CSS. In that document we also set out our plans to introduce a new REC to bring together the code requirements relating to retail energy activities and to govern the operation of the new switching arrangements. This document sets out the next level of detail on our proposals for the REC, and seeks stakeholders' views on this.

The Retail Energy Code

In particular, this document sets out our vision that the REC should be a best-in-class industry code, putting consumer outcomes at the heart of everything it does and providing market participants with an accessible and comprehensible set of rules that are as easy as possible to understand and comply with. We aim to deliver these outcomes through various routes. The focus on consumer outcomes will be ensured through the objectives of the code, the makeup of the Board and Panel, and the introduction of a Code Manager with specific responsibilities and accountabilities to ensure good consumer outcomes. We expect accessibility to come through a plain English style of drafting, which can be seen in the draft code text and schedules published as part of this document, and through digitisation of the code content, so that it becomes easy to navigate and identify all obligations for particular activities. We intend that the digitisation element of this proposal be delivered later by the Code Manager, once appointed.

We confirm our view, as published in February, of which parties will be required to accede to the REC, and provide draft text for the relevant licence modifications to give effect to this. We also introduce a proposal to require all market participants to cooperate with any programme to deliver an SCR or change required by statute. This would be used in the first instance to allow us to place specific requirements in the REC to oblige REC parties to work with the Switching Programme during the Design, Build and Test (DBT) phase, to ensure that implementation of the new arrangements goes smoothly and is not held up by some parties being unready or unwilling to proceed. We explain those proposed requirements and provide draft text to implement them in the REC.

Staged development of the REC

Our intention is that the REC should ultimately allow for consolidation of all retail energy code provisions, with the closure of the MRA and SPAA. However, our primary focus within the Switching Programme is on delivery. To that end we anticipate three iterations of the REC: The first (REC v1) will be designated to come into effect in

early 2019 and will contain basic boilerplate and governance provisions to enable the appointment of a Board, the establishment of funding processes and the appointment of a Code Manager. REC v1 will also, crucially, contain the transitional cooperation obligations referred to above. The second iteration (REC v2) will come into effect at go-live of the new switching arrangements (currently planned for the end of 2020) and will contain all the provisions required for those arrangements to operate. REC v2 will be given effect as part of the switching programme SCR. The next iteration (REC v3) is the full consolidated retail code. We are keen to work with industry to explore how quickly this can be achieved, with the goal of having it ready to go-live as soon as possible after, if not at the same time as, REC v2.

REC Governance

In line with our aspiration for the REC to be a forward-looking code which promotes innovation and is consumer-focused, we set out proposals on the governance of the REC which we believe will ensure it operates in the interests of consumers, by facilitating innovation and competition and ensuring stability of the industry platforms and services within its remit. In particular, we propose a REC Company (RECCo) Board composed in part of independent members, and a REC Panel on which independent members can always ensure the consumer interest, delivered through innovation and competition, is safeguarded.

REC v2 Content

We are not able to provide a full draft of REC v2 at this point as many issues still require policy development and some will need to be elaborated on as the programme progresses. This document provides draft schedules for registration, address management and data management, and sets out policy positions on other issues, including accession processes.

DCC Licence Changes

We said in the Outline Business Case that we had decided in principle that DCC should be responsible for the implementation and early years of operation of the CSS. This document sets out the changes that we propose to make to DCC's licence to give effect to this decision.

Next steps

This consultation will close on 31 July 2018. We expect to publish a statutory consultation in September 2018 covering the licence obligations to accede to, and comply with the REC, the general cooperation obligation, the full text of REC v1, and the changes to the DCC licence. We intend that all these changes would be brought into effect at the end of 2018. We will continue to work with stakeholders to develop proposals on the governance and content of REC v2, with the aim of having complete text by the end of March 2019, though we would not start the processes to bring it into force until nearer the end of the Switching Programme.

1. Introduction

1.1 In February 2018 we published the Outline Business Case² for the Switching Programme, which set out our decision to move forward with the implementation of a new dual fuel CSS and the creation of a new REC to govern the operation of that service. At the same time we published our Design Baseline 3³ (DB3) which is a complete set of end-to-end design and delivery products which we believe provide all market participants with clear information about the changes to be introduced by the programme and what they, individually, will have to do in order to implement those changes.

1.2 Since then the programme has continued to work on the design of the CSS and is baselining a complete set of products that specify the functional and non-functional requirements of the CSS, the service management requirements, the requirements for the switching communications network and security requirements. Alongside those the programme has also developed a set of products setting out the delivery approach and defining the roles and responsibilities of the various parties involved in the DBT phase of the programme. All of these documents, once baselined, will form Design Baseline 4 (DB4)⁴ and will be made available on the Switching Programme website.

1.3 Alongside this development of the CSS design, DCC has been developing the procurement approach for putting in place the various components of the services required to implement the new switching arrangements. This work is being carried out in consultation with industry through the programme structures and, in particular, with the Commercial Forum.

1.4 As well as designing and procuring the CSS, we need to ensure that the necessary and appropriate regulatory provisions are in place. These include:

- a) The creation of the REC, including governance arrangements, operational requirements and technical documents;
- b) Changes to market participant licences to require the establishment of the REC and to require parties to accede to and comply with it;
- c) The creation of transitional requirements in the REC to ensure that market participants cooperate with the programme to ensure that it cannot be held up because one or more parties are unable or unwilling to proceed;
- d) The creation of a general cooperation duty on market participants to support programmes implementing significant change;

²

www.ofgem.gov.uk/system/files/docs/2018/02/switching_programme_outline_business_case_and_blueprint_phase_decision.pdf

³ See Appendices 3 and 4 of the Outline Business Case document linked above.

⁴ <https://www.ofgem.gov.uk/publications-and-updates/css-design-products>

- e) The introduction of changes to other codes, under the Significant Code Review, to support the introduction of the new switching arrangements;
- f) changes to supplier licences to reflect changes to the requirements around switching speed, the operation of cooling off arrangements and other processes as necessary; and
- g) changes to DCC's licence to require them to deliver and operate the CSS.

1.5 These, with the exception of f) are all covered in this consultation document. We expect to consult on detailed drafting in relation to f), which will not need to be in force until the end of 2020 at the earliest, later this year or during 2019. We believe that the policy intent in relation to those changes is clearly set out in the Outline Business Case.

The REC – Operational Schedules

1.6 We have been keen to develop the REC as early as possible, both so that it can provide some codified governance for the transitional requirements that will help ensure the successful delivery of the programme, and to provide as much clarity as possible to parties on what is expected of them. Specifically, the DCC will need to ensure that any obligations placed upon it and/or expectations of the CSS more generally can be fully reflected in its procurement plans and subsequently in contracts with providers. With this in mind we have developed draft code text for those parts of the REC most likely to impose obligations on the DCC as the CSS service provider and the main operational schedules related to the CSS.

1.7 The design of the switching arrangements, including the design of the CSS and the standards of performance that will be expected of it, are being developed and set through the programme design processes. There is relatively little need for the REC to go further than the programme products in these areas. The draft operational schedules that we are consulting on in this document aim to identify those elements of the process that need to be set out in code – principally those elements that require interaction between parties – and to reflect those in as simple and clear a way as possible. We are consulting here on whether the proposed drafting accurately delivers the new switching arrangements as set out in DB3 and DB4, not on the content of the arrangements themselves, which is being managed through the design process.

The REC – Transitional Requirements

1.8 We proposed in February that we would introduce codified transitional obligations on parties to cooperate with the programme. This should ensure that the programme is able to proceed on agreed timelines, with the whole industry moving in step. In order for those transitional obligations to be in place for the Design, Build and Test phase we will need to both designate a transitional version of the REC and make change to the various market participant licences to oblige parties to accede to and comply with the REC before the DBT phase gets underway. That is currently planned for May 2019.

1.9 In order to facilitate that, we are now consulting on both the proposed licence requirements and the draft transitional requirements. The licence requirement for

cooperation with the programme is set at a very high level and is intended to be able to be used for other SCRs (eg. Half Hourly Settlement) and any other major industry change programmes. We believe this will be of general benefit in improving the ability of the energy market to deliver large scale industry change.

1.10 The draft transitional requirements in the REC are set at a more granular level. However, it is not possible or appropriate at this stage in the programme to set out the requirements on individual parties at a detailed level, and we do not attempt to do so. Instead, we identify the programme products that will establish those detailed requirements, such as implementation plans, testing plans etc, and require REC parties to develop their own plans that are consistent with the agreed programme products and to implement in accordance with those plans. We recognise that this does not provide complete detailed clarity to parties at this stage. However, all the programme products will be developed in accordance with programme governance processes, so all REC parties will have an opportunity to feed into their development if they wish to do so. All programme products will be baselined when ready, made public and managed through a strict change control process. Any REC party will be able to both raise change requests and/or input to consideration of change requests that are being considered. We believe that this should provide parties with appropriate transparency of, and ability to influence, the development and management of relevant plans and products.

The REC – Governance and Approach

1.11 We are keen to ensure that the REC represents a step change in code governance, reducing complexity and the burden of compliance for incumbents and new entrants. We also intend to ensure that it is sufficiently agile to respond to the challenges facing the energy retail market, and to accommodate innovations and non-traditional business models that may emerge to address those challenges. Whilst the REC must support the effective functioning of the market, we want to ensure that it serves consumers' interests in both the short and the long term. This will mean that the change process has to be flexible and that we move away from the prevalent model where control of the code, and of change, sits primarily with the incumbent market participants.

1.12 Our intention is that the REC should be considerably easier for market participants to understand, access and navigate than the current codes. This will be delivered through:

- ensuring that the requirements are kept to the minimum needed to achieve the desired outcomes, with technical content kept in technical documents;
- drafting code content in plain English; and
- making the code available in digital format so that users can easily identify the relevant requirements for specific activities.

1.13 We also intend that the REC should support innovation and change. This will be achieved through the composition of the Board and Panel and the objectives given to the Code Manager. We also intend to develop provision to allow trialling of innovative proposals where possible, though this will come later and is not covered in this document.

1.14 As noted above, we intend that the REC should be focussed on delivering good outcomes for consumers, as well as supporting innovation and competition and ensuring the stability of market systems and processes. We believe that this will be best done by ensuring that it operates with an appropriate degree of independent members on both the RECCo Board and on the REC Panel. We recognise that the proposals set out in this document are a step change in the way a code is set up as REC parties would have limited authority over the operation of the code and the change process. However, we believe this is important to ensure that the REC is, indeed, the forward looking and consumer focussed code that we all want it to be.

The REC – Staged Introduction

1.15 As noted above, we will need to bring the transitional requirements into force ahead of the DBT phase. However, it will not be possible to have the full operational requirements at that time as some of them will have to be developed during the DBT phase. In addition, we do not want to bring the operational provisions into effect until the programme is ready for CSS go-live. We therefore propose a staged introduction of the REC, with designation of REC v1, with a skeleton governance and the transitional obligations, in early 2019 and REC v2, with all the switching related operational provisions at go-live (currently planned for late 2020).

1.16 We also expect that ultimately the REC should include all relevant retail provisions, allowing for the removal of the MRA and SPAA. Where these provisions are not directly related to the switching process the transfer of them from existing codes will be outside of the scope of both the Switching Programme and the Significant Code Review. We are keen to work with industry to explore how this consolidation can be done quickly, and ideally on the same timescale as the introduction of REC v2.

1.17 Any REC drafting that is not given effect through the designation of REC v1, will remain a Switching Programme product and may be subject to further changes through programme change control processes. This will mean that any change that has an impact on the design, delivery or operation of the CSS, or any implication for any other part of the End-to-End switching arrangements as baselined by the programme, will need to go through a full programme impact assessment. Any change that is limited to the operation of the REC, without any wider implications for the programme, will be able to be decided by the Regulatory Forum through its decision-making process.

1.18 Once we are satisfied that the drafting of REC v2 is sufficiently robust, and captures any appropriate changes that may have emerged from systems testing or elsewhere, we will define the consequential modifications to other codes and will submit all of those modification proposals to the relevant code bodies in accordance with the SCR processes. In keeping with our proposal in the February 2018 Outline Business Case document, it is our intention to manage the drafting off all consequential code modifications, in order to ensure that the full suite of codes that have a bearing on the switching arrangements are fully consistent and complementary.

The Switching SCR

1.19 We consider that it would be appropriate to widen the scope of the Switching SCR from that originally set out in our launch statement in November 2015 to take account of changes to expectations since the Switching SCR was launched, in particular the change from expecting to locate the switching provisions in the Smart Energy Code (SEC) to the creation of the REC.

DCC licence

1.20 Finally, this document sets out proposed changes to the obligations that we propose placing upon the DCC in respect of its role in the Switching Programme and its subsequent role of CSS provider. Some of these obligations will be set out within its licence, particularly where they have a bearing on its allowable revenue, to which we will make an adjustment through its price control commensurate with its extended role. The detail on how the DCC, and/or as the case may be the CSS, will operate and interact with other market participants will be set out in the REC, though we anticipate that these code provisions may be supported by supplementary contract(s) where appropriate. Whilst we would not expect these enduring arrangements to take effect until 2020 at the earliest, we have sought at this stage to provide as much certainty as possible, not least so that the DCC can ensure that these requirements are appropriately reflected in relevant contracts.

2. Transitional Requirements: Generic Licence Obligations and REC v1

Chapter Summary

This chapter sets out our proposals to introduce a generic licence obligation to cooperate with the Authority or any person appointed by it to undertake any planning, project assurance, coordination or systems integration in order to give full effect to the conclusions of a Significant Code Review, such as the Switching Programme.

We also set out the transitional requirements that are specific to the switching programme, which we propose should be contained within REC v1.

Questions asked in this chapter:

Q2.1: Do you support our proposal to introduce a high level duty upon licensees to cooperate, where appropriate, in delivering the outcome of a significant Ofgem-led programme, such as a SCR?

Q2.2: Do you agree that the RECCo should be established earlier than REC v2 in order to assist with the successful delivery of the switching programme?

Q2.3: Do you agree that the bodies constituted under the REC could suitably play a formal part in the programme governance?

Q2.4: Do you agree that our definition of 'large supplier' in REC v1 is suitable for ensuring an adequate level of engagement with User Entry Process Testing?

Q2.5: Do you agree that it would be appropriate to have in place interim governance arrangements prior to REC v2 coming into effect?

2.1. Whilst the majority of provisions that we would expect to see in the enduring REC will not take effect until the new switching arrangements go live, which is currently expected to be late 2020, we consider that an early, thinner version of the REC would facilitate the successful delivery of the programme. In particular, we consider that this first version of the REC, hereafter referred to as REC v1 could:

- provide codified governance of transitional requirements;

- allow for the early establishment of the RECCo⁵, which can in turn act as a procurement and contracting vehicle for programme support or other functions that would be beneficial to parties over the transitional period; and
- allow for a phased transition from legacy code and/or programme governance, mitigating the risk inherent in a big-bang approach to transition.

2.2. As with other industry codes, we consider that the REC will require a degree of underpinning within the licence, not least to ensure that the relevant licensees accede to and comply with the code. We consider that these obligations should take effect from the designation of REC v1. However, whilst we propose to introduce licence modifications upon all gas and electricity supply licences, gas transporters, electricity distributors and the DCC, who are expected to form the REC parties on an enduring basis we recognise that there may be additional support required from a wider set of stakeholders. We are also keen to ensure that in prescribing what is required for certain parties on the transitional period, we do not inadvertently imply that additional support would not be welcomed from, or indeed expected of, a wider set of market participants, some of whom may not be expected to accede to REC in their own right.

2.3. Whilst the SCR powers go a long way to ensuring that Ofgem is able to coordinate and manage the process of making significant modifications across several codes and governance jurisdictions, they are still limited insofar as they do not extend beyond the code modifications themselves. As we have recently experienced on programmes such as Smart Metering and Project Nexus, the real difficulties arose when we had exited the codes modification processes and were reliant upon the delivery of IT systems in order to put them into effect.

2.4. We therefore propose to introduce a generic licence obligation to cooperate with the Authority or any person appointed by it to undertake any planning, project assurance, coordination or systems integration in order to give full effect to the conclusions of an SCR. We aim to give effect to this modification later this year such that it would apply in respect of the individuals or companies we expect to perform roles such as system integration with respect to the Switching Programme. However, in drafting the condition in a generic principles based manner, we consider that it could be of use to existing and future SCRs, such as Half-Hourly Settlement.

Duty to cooperate

2.5. In addition to an obligation to accede to and comply with the REC, which will contain transitional requirements, we propose that a generic licence obligation will be placed upon relevant licensees to cooperate with certain designated programmes, specifically those which require large scale and mutually dependent systems changes. This will also ensure the good discipline of anticipating the need for such support when we embark upon a SCR or similar large scale programme.

⁵ RECCo is a company whose purpose is to facilitate the operation of the REC. RECCo is not a Party to the REC.

2.6. We expect the wording, subject to any necessary minor changes to fit in with existing drafting within the relevant licences, to be as follows:

“The licensee will cooperate, as necessary, with any person(s) appointed by the Authority or appointed pursuant to a Direction of the Authority, to undertake any planning, project assurance and/or coordination/systems integration in order to give full effect to the conclusions of a [“significant code project”]. This cooperation will include but not be limited to:

- a) the sharing of such information as reasonable, and constructive participation in industry engagement in order to undertake appropriate planning of changes to IT systems or industry standard operational processes system changes pursuant to the conclusions of a SCR;
- b) the **provision of such data** as may be identified and reasonably requested in order to undertake testing and/or the population of any new central systems;
- c) the **preparation and cleansing of such data** as may reasonably be requested in order to facilitate live operation of the new central system;
- d) the provision of test scripts and results of any **testing** as may be requested by any person appointed to assure the success of any testing;
- e) reasonable endeavours to:
 - i) meet key programme milestones for the completion of any action(s) assigned to the licensee;
 - ii) adhere to any remedial plan put in place to address any issues, delays or slippage that may impact the licensee's ability to meet programme milestones, to the extent that failure to do so may jeopardise the successful and timely implementation of the programme;
 - iii) identify any dependencies that the licensee may have upon agents or other third-parties and secure the necessary support from such parties; and
 - iv) promptly escalate and/or resolve any disputes that if unresolved may jeopardise the fulfilment of these obligations.”

2.7. We have kept the term “significant code project” in square brackets as we would specifically like views on the use of this term, which we would seek to define within the licence. We have used this term rather than simply “significant code review” or “SCR” to cater for the possibility that a relevant programme may not use the SCR provisions of the licence in order to give effect to its conclusions. For instance, Ofgem is currently pursuing Half-Hourly Settlement in electricity as an SCR, though we signalled in January 2018⁶ that we may instead use new powers if they become available. The Smart Meters Bill, which was introduced into Parliament on 18 October 2017, includes provisions that would give Ofgem the means to progress market-wide Half-Hourly Settlement reforms more effectively than through an SCR. If these proposed powers are introduced into law, we would expect to transition from

⁶ See Ofgem open letter: [Electricity Settlement Reform Significant Code Review- Ofgem response to stakeholder feedback](#)

the SCR to the new powers following our decision on if, when and how to implement market-wide Half-Hourly Settlement. This is expected in the second half of 2019. However, notwithstanding these proposed powers to modify the code(s) directly, we would still require the cooperation of all relevant licensees in order that these reforms are reflected in systems changes in an efficient and effective manner.

2.8. Whilst we would in any case expect licensees to identify where they may be reliant upon the cooperation of agents of other third parties to discharge any licence obligation and seek to ensure that cooperation is forthcoming, we have made this explicit within the drafting of this condition. This is, at least in part, in recognition of the role that non-licensed parties such as central service providers play in the market. We do not anticipate any problems securing the cooperation of those non-licensed parties with the switching programme, as demonstrated by the extent of their constructive involvement to date. However, we recognise that there may nonetheless be some aspects which require this to be in formal partnership with, or undertaken with the approval of, the relevant licensees. For instance, we would expect the Gas Transporters to ensure that whatever permissions may be required for Xoserve as the gas Central Data Service Provider to share data with or migrate it to the CSS are in place as and when required.

2.9. We envisage that this duty to cooperate, using the same text or a variation as close as possible to it, would be inserted into each licence. This could be in the same condition as references to the SCR process currently appears, for instance:

- Gas Transporters Licence (standard condition 9);
- Gas Transporters Licence (standard special condition A11);
- Gas Suppliers Licence (standard condition 30 and/or the proposed new standard condition for the REC).

2.10. However, we recognise that owing to the proliferation of industry codes, particularly in electricity, there are instances where the SCR provisions are duplicated in full across several conditions within the same licence. More specifically, they are set out in Electricity Distribution Licence standard conditions 21, 22 and 23, and in Electricity Transmission Licence standard conditions B12, C3, C10 and C14.

2.11. Given the generic non-code specific nature of the proposed duty to cooperate, we would look to avoid adding further to this duplication. For instance, rather than being included under each of Electricity Distribution Licence standard conditions 21, 22 and 23, it may be appropriate to insert the new obligation into Standard Condition 20: Compliance with Code Industry Documents. We would welcome view on whether this consolidation of drafting is preferable to the current approach of specifying the arrangement in full, for each code individually.

2.12. For completeness, we also consider that this duty to cooperate should be inserted into those licences which do not currently contain any reference to the SCR process, which are:

- Electricity Generation Licence;
- Electricity Interconnector Licence;
- Gas Interconnector Licence;
- Gas Shippers Licence; and

- Smart Meter Communications Licence;
- Gas and Electricity Interconnector Licences

2.13. Other than for the Smart Meter Communications Licence, where we propose to insert the duty to cooperate into standard condition 21, we will give further thought to which condition and/or where within each condition the proposed text should be inserted.

Q2.1: Do you support our proposal to introduce a high level duty upon licensees to cooperate, where appropriate, in delivering the outcome of a significant Ofgem-led programme, such as a SCR?

Switching Programme Transitional Requirements

2.14. As set out in the Outline Business Case, we consider that industry participants will need to fully and effectively cooperate with all relevant aspects of the programme before, during and after the DBT phase in order to ensure that they are ready to interact with the CSS when it goes live; this is a prerequisite for the successful implementation of the new switching arrangements. Whilst this latter phase of a change programme has not traditionally been an area that falls within our purview, beyond the requirement on obligated parties to meet any deadline we may set, we consider that appropriately targeted and agile regulatory underpinning of transitional requirements will ensure both that activities are undertaken as scheduled, and that issues are resolved when they arise.

2.15. We have used lessons learned from Project Nexus and elsewhere to help shape our approach to the delivery of the programme, in particular the shape of governance and assurance. In our Outline Business Case, we noted our intention to procure programme management and assurance expertise to support the delivery of the Programme, and to source funding from licenced parties. It is currently our intention to secure funding for these Ofgem procured roles via the Supply Point Administration Agreement (SPAA) and the Master Registration Agreement (MRA) until such time as the transitional REC becomes operable. It is then our expectation that this funding arrangement will be one of the first activities for the RECCo Board on commencement of the transitional obligations.

2.16. Further, as Project Nexus was an industry project, it did not operate with formal regulatory underpinning and Ofgem's decision to take over programme sponsorship was made in the interest of protecting consumers. One of the key lessons from Project Nexus was that delivery partners may not be sufficiently empowered to resolve issues and/or take appropriate decisions that may be required, and that there were insufficient regulatory powers to compel market participants to work together to achieve go-live.

2.17. Towards the end of Project Nexus there was a large amount of goodwill between programme parties, but this is not a guaranteed outcome. So, whilst we recognise the need for a central coordination party within the programme as well as independent assurance, these parties are not seen as a replacement for the need for regulatory requirements such as licence conditions, but rather as complementary mechanisms to minimise risk to the programme and ultimately consumers.

2.18. This Chapter therefore summarises the transitional requirements that will be given effect through REC v1.0, and with which we expect parties to the REC to comply. Adherence to these transitional requirements will be underpinned by licence obligations, both in terms of the obligations on parties including the DCC to comply with the code, and through a more general duty to cooperate, as set out earlier in this chapter.

Transitional requirements schedule

2.19. The draft transitional requirements schedule is published in full as a subsidiary associated document to the consultation.

2.20. It is important to note that we are not at this time seeking to prescribe in detail how the following phases of the programme will operate. Rather, we are seeking to provide clarity and certainty to stakeholders, particularly those who will be required to make changes to their own systems, to facilitate, or as a consequence of, the development of the CSS. Nor do we wish to pre-empt the input that we expect certain support roles to have on the programme, such as the System Integrator and Programme Coordinator. We recognise that much of the value of those roles will be in the expertise that other organisations and individuals will bring to the programme and we do not wish to constrain their input through unnecessarily prescriptive terms of reference. The transitional requirements schedule is therefore aimed at providing sufficient early clarity, but perhaps more importantly, providing hooks within the codified governance regime on which to hang future iterations of programme planning, and in particular programme decisions. We therefore aim to strike an appropriate balance between regulatory certainty and the agility that a programme of this nature requires.

2.21. The transitional requirements schedule will therefore set out the roles and responsibilities of parties and agents within the programme, which are expected to be set out in further detail in associated documents that have been, or will be, produced by the programme. Once REC v1.0 is designated, we would not expect to make any modifications to the transitional requirements schedule itself, though the referenced documents may be revised from time to time. However, we propose that no modification of these associated documents be made other than through an accepted change request, managed under Switching Programme governance.

2.22. The key elements of the transitional requirements are as follows:

Programme Plan

- i) The overall Programme Plan will set out our expectations for the delivery of the programme, during and after the DBT phase. This will be produced by the Programme Co-ordinator in advance of the DBT phase.

E2E Transition Plan

- ii) The E2E Transition Plan sets out a staged approach to managing transition to the new switching arrangements. It is expected that delivery of the new switching arrangements will be conducted over five Transition Stages throughout the DBT phase of the programme. These will include a preliminary stage for improvement of existing data systems and a post-implementation stage after 'go-live'. Progression through to the next transition stage will be subject to certain defined exit criteria having been met. These criteria will be developed and communicated to stakeholders in advance of the DBT phase, but may be modified during the DBT phase and up to go-live.

E2E Design and Build Plan

- iii) All parties and providers affected by the new Switching Arrangements will have a varying scale and complexity of change to implement; spanning both technical and business change aspects. The E2E Design and Build Plan defines the roles of differing market participants and the activity that we expect them to fulfil in the Design and Build phase of the programme.

E2E Testing Plan

- iv) The E2E Testing Plan product sets out a proposed approach for this testing framework, identifying the test phases that we expect market participants to undertake and how responsibilities for testing and oversight of testing will be realised leading up to and during the DBT phase. Market participants should be able to identify their responsibilities for testing during the DBT phase and to develop their own individual Testing Plans for activity in the DBT phase using this product.

E2E Integration Plan

- v) An Integration function was identified in our Blueprint Phase work as necessary to ensure the coherent integration of the component of the Switching programme. Experience from other projects such as Nexus has shown that lack of readiness of individual contributors to the end solution can cause additional cost and delay to delivery of large, multi-part projects. We have identified distinct roles for integration of the central systems underpinning the new switching arrangements and co-ordination of market participants to ensure that they are ready to interface with the CSS. Both these roles will go further than normal assurance, for instance by requiring the appointed agent to proactively intervene if necessary, to ensure that these contributors are ready for each stage of implementation. It is therefore important that the appointed parties are both sufficiently empowered to undertake this role, with vires provided through programme governance and the REC, but also accountable for their actions. They may also provide tools

such as test environments to enhance participants' design and build activity. Detailed requirements for the System Integration and Programme Co-ordination functions will be provided in the requirements documentation for each of these functions, to be published by the programme as part of Design Baseline 4.

E2E Post-Implementation Plan

- vi) The E2E Post-Implementation Plan will provide sufficient guidance to enable market participants to plan their post-implementation activities in a manner that will attain the required performance levels and achieve stability as early as possible after go-live. We aim to ensure that there is an orderly and as far as possible seamless transition from programme governance through to steady state Service Management and business as usual enduring governance.

E2E Data Migration Plan

- vii) Each of the Transitional Stages outlined above will require data migration activities between those services to enable the operation of the new arrangements. The migration of data must be aligned to the development and implementation of new service functionality and interfaces. The E2E Data Migration Plan outlines the data migration activities that will take place at each of the transitional stages identified in the E2E Transition Plan. To achieve this we have conducted a full analysis of the E2E Logical Data Model, identifying whether migration is required for each data element, and if so where the data will be migrated to and from. Where data is migrated into the CSS, the detailed approach to migration will be covered by the CSS Data Migration Plan product. In the absence of existing obligations and/or incentives to prepare, cleanse and migrate the identified data, we would expect to make these explicit within the REC and/or associated documents. We anticipate that this will also need to address any concerns that existing data controllers and/or owners may have with respect to data sharing and compliance with applicable regulations.

Compliance

2.23. We believe that an appropriate incentives and enforcement regime, which may include the use of sanctions, should form a key part of the regulatory underpinning of the REC and of its self-governed aspects. This applies as much to the transitional aspects of the code as to the enduring provisions. However, we also recognise that the time-bound nature of the transitional requirements mean that some approaches are likely to be more suitable and effective than others. We also wish to ensure that the transitional period, and in particular the participation in all of the activities mentioned above, are undertaken in an open and collaborative manner. For instance we would much rather that a party came forward if they are falling behind or require some assistance, rather than struggling in isolation for fear of any sanction being applied. However, if a party does fall behind or otherwise receives additional support

from the programme, we would reasonably expect them to adhere to any remediation plan that may be put in place.

2.24. Ultimately, the switching programme is not as dependent (as for instance, a programme impacting upon balancing and settlements), upon the readiness of the market as a whole in order to go-live. We will ensure that, for instance a supplier Party's readiness, or lack thereof, cannot inhibit a customer from switching away from them. However, whether or not that supplier is able to interact with the CSS and therefore acquire a customer or object to a customer leaving is largely a matter for them. We consider that they will be incentivised to ensure that this is the case.

REC and the phased transition of governance

2.25. As set out in chapter 7 of our February 2018 Outline Business Case document, we consider that the RECCo and the REC itself could have an important role in facilitating successful programme delivery.

2.26. In particular, the early establishment of the RECCo may enable it to procure support that would be useful for participants that may not otherwise be available from, or appropriately provided by, either the programme or more indirectly via the DCC. For instance, we consider that the early procurement of the REC Manager would help facilitate the SCR phase of the programme. The early procurement build and population of a REC website may provide a better and more flexible means of publishing programme documentation and keeping stakeholders informed.

2.27. We also consider that REC bodies and/or individuals representing REC Parties could play a part in programme governance. As set out the Outline Business Case document, we recognise that there will be a need within the programme for groups to look at regulatory matters and performance assurance. Given the obvious overlap with the enduring roles of such groups under the REC, it would seem sensible for these groups to be constituted in the manner envisaged by the REC, and facilitate an early and orderly transition from programme governance to business as usual operation. In other words, we do not necessarily need to exit from all aspects of the Programme at the same time, and appropriately constituted groups operating under the right terms of reference could allow at least some of this to happen early. This will reduce the extent of upheaval around the time of go-live and as such go some way towards mitigating risk.

2.28. We also recognise that the DCC is effectively procuring and, at least for the initial period, will be operating the CSS on behalf of the rest of industry, and of suppliers in particular. However, this is not necessarily a permanent arrangement. Whilst it may be appropriate for the DCC, or its successor as the holder of the Smart Meter Communication Licence to continue to be responsible for the operation of the CSS, it might equally be appropriate for the management of the CSS to be novated to the RECCo, on behalf of suppliers and other REC parties.

2.29. We have noted in Chapter 6 of this document that an initial review would likely start in 2022/3 to allow time to prepare for any transition at the end of the current licence term. This would be an appropriate time to consider whether

provision of the CSS should form part of the retendered licence or whether it would sit better elsewhere, for example under the governance of the REC.

2.30. Having regard to industry parties' interests as both funders and users of the CSS, and the potential REC interest as managers of it after 2025, it seems appropriate that there should be some REC representation on the procurement panel. Given the timing implications, we have sought to put such representation in place based on informal agreement through programme forums that we will look to formalities through terms of reference to be agreed with the SPAA and MRA Executive Committees rather than REC. To the extent this process is still underway when the REC goes live, we would expect the representatives' Terms of Reference to be adopted by the RECCo and/or REC Panel, with any ongoing support being provided through REC arrangements.

Q2.2: Do you agree that the RECCo should be established earlier than RECv2 in order to assist with the successful delivery of the switching programme?

Q2.3: Do you agree that the bodies constituted under the REC could suitably play a formal part in the programme governance?

Definition of 'large supplier'

2.31. REC v1 places a requirement upon 'large suppliers' to be ready to enter User Entry Process Testing as soon as it is made available. The policy intent behind this requirement is to ensure that a sufficiently large proportion of the retail market engages with the UEPT process at an early stage.

2.32. We have defined a 'large supplier' as being one with in excess of 250,000 Registrable Measurement Points (RMPs), which equate to individual domestic retail customers, whether they be gas, electricity or dual-fuel. This threshold is consistent with the existing definitions within the gas and electricity supply licences, which define a Small Energy Supplier as being one which supplied fewer than 250,000 domestic energy premises on 15 February 2015 (whether with electricity, or gas, or a both).

Q2.4: Do you agree that our definition of 'large supplier' in REC v1 is suitable for ensuring an adequate level of engagement with User Entry Process Testing?

Transitional Governance

2.33. As set out above, we have sought to ensure that the REC v1 document is at a suitably high level that it provides a framework for formal governance of the transitional requirements, rather than seeking to prescribe in great detail what those requirements will be. However, complementary subsidiary documents have been produced, as set out in the transitional requirements schedule. These subsidiary documents will be maintained as part of switching programme governance, with change requests being managed through the programme change control process. We therefore do not anticipate needing to progress any changes through the REC

modification procedures until after the new switching arrangements have gone live, alongside REC v2.

2.34. However, we also envisage that REC bodies such as the RECCo Board and REC Panel would have a wider role than change management, not least in the procurement of the REC Manager, which we are keen to pursue as soon as reasonable practicable in order that they can facilitate the development of REC v2. We also envisage an early role for these bodies in assisting with the governance of the programme, as set out above.

2.35. Working with external lawyers funded by the MRA and SPAA Executive Committees, we will further develop proposals in the coming months for the establishment of the REC Company, including the appointment of RECCo Board of Directors. Our current thinking on this is set out further in Chapter 3. In lieu of these bodies being in place, we propose that the prevailing executive committees of the MRA and SPAA could act as an interim REC Panel, sitting in joint session on an ad hoc basis as and when required to fulfil business that would ordinarily fall to the REC Panel.

2.36. Given the need to ensure that the procurement process is in no way prejudiced, or that any market participant receives any unfair advantage, we also propose that in the unlikely event of a REC change being required before a REC Manager has been appointed through competitive procurement, Ofgem would act as interim REC Manager.

Q2.5: Do you agree that it would be appropriate to have in place interim governance arrangements prior to REC v2 coming into effect?

3. Retail Energy Code: Governance

Chapter Summary

This chapter sets out the high level design principles and governance model of the REC, in terms of how decisions will be made and by whom. We aim for these arrangements, where appropriate, to be applicable to both REC v1 and v2, though we recognise that while we are in the transitional phase of the programme, it may not be desirable, practicable or cost efficient for all aspects of the arrangements to be given full effect.

We will therefore look to employ interim arrangements where they would be more appropriate. For instance, as we would expect all switching documents to remain subject to the governance of the Ofgem programme rather than REC change control processes, it may not be necessary to appoint a REC Panel until such time as REC v2 takes effect.

Questions asked in this chapter:

Q3.1: Do you agree with the proposed powers and functions of the RECCo Board, REC Panel and REC Manager, and how they would be distributed amongst them?

Q3.2: Do you agree with our proposal that independent Non-Executive Directors (NEDs), potentially from outside of the energy industry, should be present on the RECCo Board and that the composition of the RECCo Board should be subject to thorough review, both periodically and/or whenever the scope of the REC/RECCo Board responsibilities changes substantively?

Q3.3: Do you agree with the proposed composition, powers and functions of the REC Panel?

Q3.4: Do you agree that there should be entry and systems testing requirements placed on new entrants, comparable to those that we expect incumbent suppliers to undergo as part of the transition to the new switching arrangements?

Background

3.1. New technologies, new business models and new ways of running the energy system are emerging. These innovations have the potential to help us move to a low-carbon system where technology helps to reduce system costs and enables consumers to be more engaged and empowered. However, aspects of the existing regulatory framework – in particular, industry code governance arrangements – may be preventing these innovative ideas from coming to fruition, especially where they require significant changes to existing arrangements across different codes, and where there are misaligned interests.

3.2. At the conclusion of their market investigation, the Competition and Markets Authority found that there can be cases where current code governance arrangements do not allow code modifications to be developed or implemented efficiently – and that this can limit innovation and adversely affect competition.⁷ Our recent Call for Evidence on Future Supply Market Arrangements⁸ has also shown us that some stakeholders are concerned that code arrangements are a significant barrier to innovation. They considered that the complexity and distributed ownership of the different codes can make it difficult for participants to identify who regulates what in the market. It can be particularly difficult for new entrants and innovators to navigate the code landscape, and those with unique propositions can face significant costs in order to understand how they could comply with a number of codes. To tackle the issue of code complexity, some stakeholders indicated support for the proposed creation of the Retail Energy Code. In addition, some stakeholders stated that they wanted the REC to reduce the overall number of codes and simplify the regulatory framework in the retail market. Some stakeholders also considered that ensuring code governance arrangements allow participants to exercise an equal and balanced level of influence over changes to codes could enable more innovation in the market.

3.3. We have been clear that we agree with the findings of the CMA and consider that the current code governance arrangements have a negative and material impact on consumers' interests and competition.⁹ We are also concerned that code arrangements can be a blocker to innovation, and that market participants looking to innovate can have limited abilities to feed into and influence code changes that might enable new propositions or business models to work with industry processes. The new REC will introduce governance arrangements that seek to address the negative effects code arrangements can have on innovation and competition. The governance arrangements we intend to adopt in the REC, and their intended effect, are set out below.

3.4. Our vision for the REC is that it is a consumer-centric code, where protection and promotion of consumer outcomes, including through ensuring stability and efficiency of relevant market systems, is the focus of REC operations. It is important that the REC also has a focus on the evolution of the market arrangements it puts in place. We agree with the Regulatory Design Team that these aims should be contained within a mission statement for the REC, which will apply to the whole code, as follows:

“The REC will facilitate innovation, competition and cost-effective arrangements that protect and promote positive customer outcomes in the retail energy market.”

⁷ CMA (2016), Energy market investigation – Final Report, paragraph 19.295.

⁸ Ofgem (2017), Future of supply market arrangements

⁹ Ofgem (2016), Industry code governance: Initial consultation on implementing the Competition and Markets Authority's recommendations, p. 4. In our 2018/19 Forward Work Programme 2018/19 we indicate that code governance reform work will recommence at the end of the year.

3.5. We consider that a code which fulfils this mission statement would go a long way towards addressing the adverse effects on competition that the CMA identified the existing code governance arrangements as having. Further, in developing its proposals for the REC design, governance model and modification procedures, the Regulatory Design Team also had regard to:

- the principles of better regulation;
- licensable and non-licensable retail functions (e.g. code of practices) in scope of full REC;
- authority and accountability for REC decisions;
- experience of, and lessons learnt from, existing code governance models; and
- future developments of the retail energy market, potential community of parties and users of the different central retail market systems.

3.6. This chapter focuses on the areas where we are specifically seeking respondents' views. The drafting of the REC main body and each of the schedules that have been prepared to date (being the transitional requirements covered in Chapter 2 and operational schedules covered in Chapter 4) are also available for comment, published as subsidiary documents alongside this consultation.

3.7. We would like to express our gratitude to those individuals who gave up their time to develop proposals under the auspices of the Regulatory Design Team and/or to review and provide feedback on those proposals through participation in the Regulatory Design User Group. That input has been invaluable in developing our thinking, though as clarified throughout the process, we have reserved the right to deviate from the output of those groups where we consider it appropriate in order to meet wider policy aims, as set out in these proposals.

REC Governance Model

3.8. In common with existing codes, the REC will need a body that is responsible for providing strategic direction and ensuring that the REC operations and governance arrangements facilitate the achievement of the REC mission statement. The REC will also need a management structure responsible for the day-to-day operations of the REC and ensuring that the code is managed in line with its operational objectives. Finally, at the working level, the REC will also need a body responsible for planning and managing delivery of REC services.

3.9. These three functions are undertaken in most current codes by a Board, Panel and Code Administrator respectively, reflecting the different roles and responsibilities, as well as the governance and/or applicable laws under which they operate. However, as noted above, it is important that the REC governance structure is established in a way that will deliver on our stated objective of it being a different sort of code; one that is consumer centric, accessible to all market participants, and which supports innovations and change in market structures. Therefore, while the REC governance may be constituted along broadly similar lines in terms of the split between three distinct bodies, we consider that it would be appropriate to reassess

the nature of the membership of each and the balance of responsibilities and power between those bodies, and to strengthen the accountability of each.

REC Functions by Governance Body

3.10. Given the findings of the CMA investigations, we are keen to ensure that the governance of the REC is able to effectively discharge the functions assigned to it and thereby protect the interests of its parties, but also to facilitate beneficial change to the retail market and, in so doing, benefit consumers. However, we consider that it would be inappropriate to focus solely on the particular make-up of the Panel, or indeed of the RECCo Board, without first considering wider balance of functions, roles and responsibilities, including those of the REC Manager. In particular, we propose that many of the functions and responsibilities traditionally assigned to a code Panel could, under the REC, appropriately be assigned to an empowered and suitably accountable REC Manager. A simplified overview of the relative core functions is set out below:

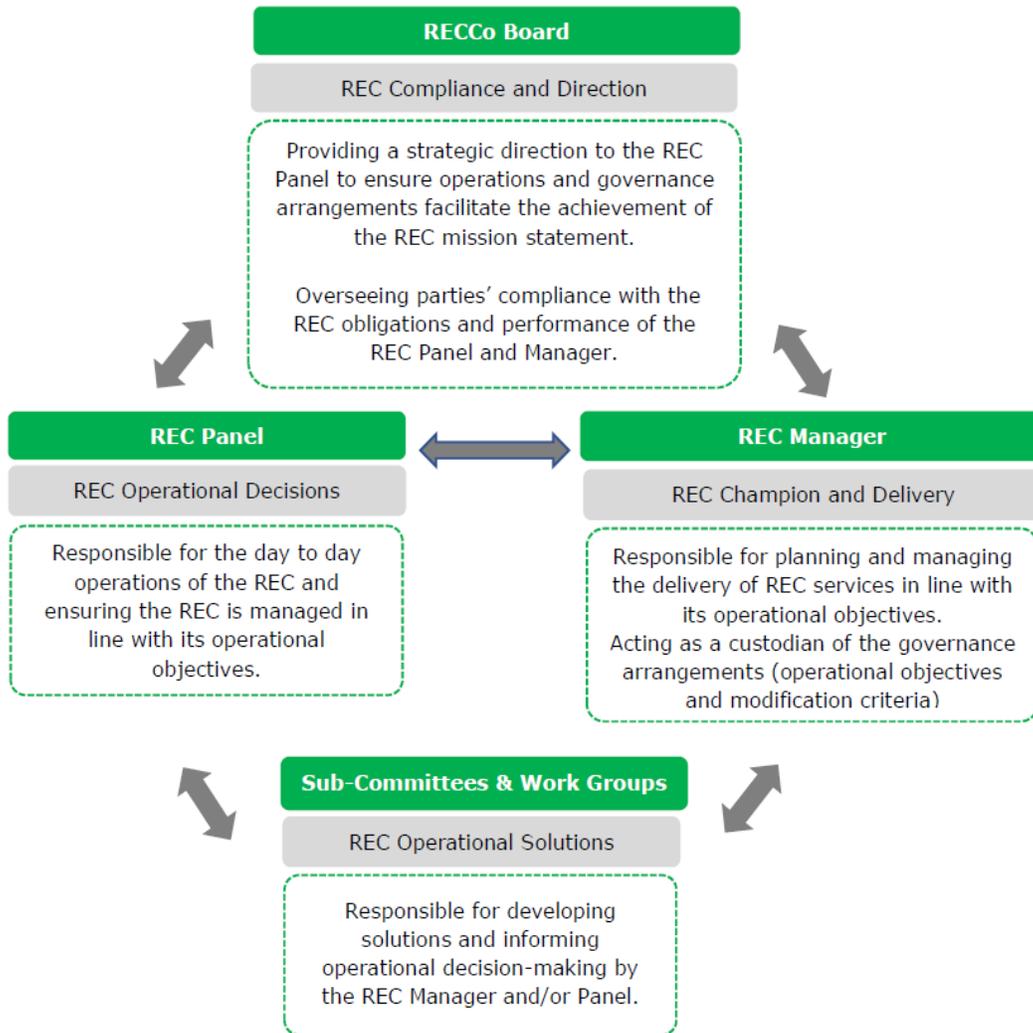


Figure 1: REC core functions

RECCo Board Powers and Functions

3.11. In addition to being responsible for the running of the RECCo, established in order to act as a legal entity for the purpose of entering into contract for relevant services or such other functions as may be required to deliver the REC arrangements, the RECCo Board is intended to serve in an advisory and oversight capacity. For instance we would expect that the RECCo Board would provide strategic direction to the REC, establishing its priorities and providing independent expertise to support the REC Panel and Manager in fulfilling their responsibilities. The RECCo Board will have ultimate accountability for reporting to the Authority as appropriate.

3.12. In particular, we consider that the RECCo Board would add value by strengthening the overall governance framework of the REC, in particular through holding both the REC Panel and REC Manager accountable for their actions.

3.13. We expect that the key powers of the RECCo Board would include:

- a) Overseeing the development of the REC to ensure it continues to facilitate the achievement of its mission statement.
- b) Acting as representatives of consumer interests and ensuring that all strategic decisions consider the potential impacts on, and outcomes for, consumers.
- c) With input from the REC Panel and REC Manager, agree strategic priorities for the REC. These strategic priorities should be consistent with any overall Strategic Direction set by Ofgem as proposed by the CMA, and could take in a long-term horizon, but should be reviewed and if appropriate re-prioritised each year. They would be expected to take into account REC parties' feedback, changes in the energy market, regulatory priorities and other relevant changes or issues. These priorities would be expected to form, or at least help shape, the REC Panel and REC Manager work plans for the coming year.
- d) Overseeing the appointment of REC Panel Members and managing the procurement/contract of the REC Manager. Providing scrutiny of other procurements relating to the REC that may be the responsibility of or delegated to the REC Manager, or Panel as the case may be.
- e) With input from the REC Manager, periodically reviewing the REC Panel composition to ensure that it remains effective and represents the breadth of expertise and interests of the REC community including REC parties, consumers and other industry participants.
- f) Together with the REC Manager, ensuring that there is a review, at least annually, of the performance of the REC operations and code governance arrangements, either specifically covering the REC or as part of the Ofgem commissioned cross code survey.
- g) Managing the resolution of relevant appeals to REC Panel decisions, e.g. accession applications, performance remediation plans and/or application of sanctions, budget setting and REC Panel appointments (note that appeals to change proposals are expected to be submitted to the Authority).
- h) Overseeing and periodically evaluating the performance of the REC Panel (and/or its Members) and REC Manager.
- i) Overseeing REC parties' compliance with the arrangements set out in the REC. This responsibility is likely to be devolved or delegated to the Performance Assurance Board.
- j) Ensuring RECCo is managed in accordance with its Articles of Association and Company Law.

- k) Considering the results of any audits of RECCo and monitoring the implementation by the REC Manager of any remedial actions.
- l) Reviewing draft and final versions of the RECCo Budgets, including any responses from consultation with REC parties. The REC Panel will be responsible for developing the RECCo [Three-Year] Budget each year, as shaped by the RECCo Board's strategic objectives and business plan.
- m) Ensuring that costs are managed in accordance with the approved RECCo Budget.

REC Panel powers and functions

3.14. The REC Panel will have day-to-day responsibility for the development and delivery of the REC. However, we propose that certain roles associated with the current code Panels would, under the REC, rest instead with the REC Manager and/or the RECCo Board. We propose that the key powers and functions of the REC Panel will be as follows:

- a) ensuring that the REC is operated in a manner that facilitates the achievement of its operational objectives. This includes periodically reviewing its operations to evaluate whether the REC Panel operations facilitate the achievement of the REC operational objectives;
- b) ensuring that all REC governance processes such as accession, entry and re-assessment, disputes and modifications processes are established and managed in accordance with the relevant terms of the REC;
- c) resolving certain disputes under the REC, including deciding on the expulsion and withdrawal of any rights of any parties and/or users of any of the systems governed under the REC;
- d) establishing and ensuring the compliance of REC Sub-Committees¹⁰ and Working Groups with their Terms of Reference;
- e) overseeing and evaluating the performance of services and systems providers under the REC, except for the REC Manager, whose performance we propose would be evaluated by the RECCo Board.
- f) ensuring that relevant, appropriate and effective working arrangements with other code panels/committees and the information commissioner have been established;
- g) establishing and ensuring the delivery of agreed work plans for the REC;

¹⁰ Sub-Committees are also referred to as Expert Groups under the REC.

- h) developing and managing the approved RECCo Budgets, including the any invoicing of charges to REC Parties and payments to REC Service and System Providers;
- i) directing third parties to undertake certain actions and appointing and removing professional advisors (or directing other relevant bodies to do so) as required to facilitate the REC Panel's functions; and
- j) ensuring any relevant reporting is provided to the Authority (though that reporting may in practice may undertaken directly by the REC Manager).

REC Manager Objectives

3.15. As stated above, we envisage that the REC Manager role will go much further than the current code administrator role, being largely autonomous of the REC Panel and suitably empowered in order to achieve consumer, competition and market benefits through the REC. This will primarily be through the operation of a more agile yet robust, systematic and objective change process, but also through their involvement in performance management and delivery of code-related support services, whether independently or in collaboration with other code bodies. However, with that increased empowerment comes increased accountability. We therefore propose that the REC Manager be subject to periodic performance review by the RECCo Board. This assessment should not be limited to a set of KPIs as currently used by some of the code administrators, but by qualitative outcomes against a primary aim and a set of more specific objectives.

Mission statement

3.16. As with the REC as a whole, we consider that it would be beneficial to sum up the aim of the REC Manager in a simple mission statement. We propose that should be:

"To identify and deliver strategic change that benefits consumers, competition and the operation of the market"

3.17. This mission statement has been drafted in direct response to the CMA proposals. It requires the REC Manager to be proactive in its duties and broadens both its scope beyond just REC Parties, and its remit with regard to developing strategy and implementing change. These aims would be expanded upon in its objectives as follows.

Support for Parties

"To ensure Users and third parties have a positive experience when engaging with the REC and to act as an impartial and accountable critical friend"

3.18. This objective focuses on the delivery of a high quality customer focused service. It could be shaped with a particular focus on new entrants and smaller parties.

Modification Process

“To ensure the efficient operation of the modification process”

3.19. The pace of change and complexity of modification processes have been widely criticised, including by the CMA. The REC Manager will be obligated and empowered to address these concerns. This should include the ability to raise Change Proposals and a responsibility for delivering strategic change to the industry. This would include working with REC parties and Ofgem to prioritise change. This is likely to extend to a coordination or programme management function.

Performance management and compliance monitoring

“To deliver a robust Performance Assurance Framework and manage REC Party compliance”

3.20. This objective places a direct obligation on the Code Manager to manage the Performance Assurance Framework and actively monitor the compliance of REC Parties to the code. It is anticipated that the REC will include suitable provisions to address non-compliance and that the REC Code Manager will be empowered to enact them.

Service Provider Performance

“To manage REC service providers’ delivery against their contractual obligations”

3.21. It is proposed that the scope of the Performance Assurance Framework includes service providers who have obligations under the REC, e.g. the CSS Service Provider. Whilst service provider obligations will be documented and monitored through their contractual relationships, where appropriate, it is proposed that details of the key obligations will be included within the REC. Service providers will be required to report against Key Performance Indicators (KPIs) and the Code Manager will review these reports and escalate issues to the Panel / Board and to the relevant licensed party if required. It should be noted that under the proposed changes to the current DCC licence, DCC would be responsible for provision of the CSS according to the obligations set out in the REC and subject to their licence and associated price control regime, including any incentive regime. We expect that the Code Manager will also monitor CSS performance against agreed KPIs and report to Ofgem as appropriate so that performance can be reflected in the relevant incentive arrangements.

Cross Code Collaboration

‘To work with other Code [Administrators] to ensure a co-ordinated approach to identifying and resolving industry issues in accordance with the CACoP principles’

3.22. It is essential that the REC Code Manager work with the administrators of the other industry codes to remove barriers, drive efficiencies and improve processes for parties as well as sharing lessons learnt.

Q3.1: Do you agree with the proposed powers and functions of the RECCo Board, REC Panel and REC Manager, and how they would be distributed amongst them?

Models for membership of the RECCo Board and REC Panel

3.23. The Regulatory Design Team of the switching programme identified three potential membership models for these REC bodies, as follows:

Model A) REC Panel and RECCo Board functions being performed by the same Members, elected by code parties

3.24. Under this model, REC Panel and RECCo Board Members¹¹ would be elected by defined, voting party categories to the REC. The elected Members would be performing two key functions under the REC; the Panel being responsible for the day to day operations of the REC, and the Board of Directors being responsible for the operation of the RECCo in line with its articles of association and Company Law.

3.25. This model is based on the arrangements that exist under most existing energy codes and ensures continuity between Panel and Board decisions. Thus, RECCo Board meetings in this model act as closed REC Panel meetings.

3.26. Both the REC Panel and RECCo Board Members would be accountable, under this model, to REC Parties and RECCo Shareholders, respectively. In practice this means that elected Members would only be re-elected for the new term of office by the relevant party category if parties were happy for the Member to continue to represent their interests on the REC Panel and RECCo Board.

Model B) – REC Panel and RECCo Board functions being performed by separate Members

3.27. Under this model, the Panel and Board functions would be performed by separate Members with distinctively different expertise. REC Panel being made up of Members from within the energy industry whilst the RECCo Board Members being appointed from outside the industry (e.g. another retail industry).

3.28. Similar to Model A, the REC Panel Members would be elected by defined, voting party categories to the REC and be responsible for the day to day management of the REC. The RECCo Board on the other hand would be serving as an oversight and advisory body. It would be responsible for agreeing the strategic priorities for the REC and providing independent, external senior level expertise to

¹¹ Referred to as executive committee under some codes.

support the REC Panel in fulfilling their governance responsibilities and ensuring the REC is managed in line with its mission and operational objectives. Although the membership of the REC Panel and RECCo Board would be different we envisage that most of the operational and commercial decision-making of the REC would be devolved to the REC Panel.

3.29. In this model, the RECCo Board Members would be appointed by an independent body (e.g. Ofgem, Citizens Advice) to ensure diversity of RECCo Board expertise. We believe there should be a requirement on some of the RECCo Board Members to have expertise from other regulated retail sectors to bring in independent, external senior level expertise and lessons learnt from outside of the energy industry. The model provides an opportunity to bring in expertise from other retail industries and become custodians of consumers' interests.

3.30. The RECCo Board in this model is intended to add value by strengthening the accountability and actions taken by the REC Panel and REC Manager. It is also intended to allow for operational decision-making responsibilities to be separated out from strategic decisions.

3.31. The accountability for REC operational and governance decisions would sit with the RECCo Board. The Regulatory Design Team envisaged that the RECCo Board could have powers to direct re-elections of the REC Panel Members by the relevant party category, if required.

Model C) – Combination of Party Elected and Independent Non-Executive Directors

3.32. This model is a hybrid of Model A and B in that some of the party elected REC Panel Members would be performing the function of Executive Directors on the RECCo Board. The RECCo Board would also include independent NEDs who would be appointed by an independent body as per Model B. The NEDs would have the same general legal responsibilities of RECCo as the Executive Directors.

3.33. This model shares some of the advantages associated with Model B, in that it provides the opportunity to bring expertise from other retail industries to the Board via the NEDs. Their detachment from the day-to-day operations and expertise from outside the energy industry is intended to bring diversity to RECCo Board decisions and lessons learnt from other retail markets. This model is intended to ensure that the REC is not only built on best practices from the energy sector but also other retail industries, ensuring it embraces novel solutions. It also ensures that there is some continuity between REC Panel and RECCo Board decisions with the Members of the REC Panel being represented as Executive Directors on the RECCo Board.

3.34. As under Model A, the REC Panel and RECCo Board would be accountable to parties and, to the extent that they are different, RECCo Shareholders, respectively. In practice we would not expect there to be any substantive difference between the two sets of stakeholders or their interests, merely a reflection of the differing governance (and in the case of the RECCo Board, laws) under which they operate.

Ofgem's Proposed Model

3.35. Whilst the Regulatory Design Team recognised that there may be efficiencies in having both functions performed by the same group of individuals, its assessment was that Model B would provide the more robust framework for the enduring REC.

3.36. To a large extent Ofgem supports that recommendation. Not least, we recognise that in consolidating various aspects of current codes together with the expected growth in scope and community of parties over time, the REC may become significantly larger and broader than the codes it replaces. This can be expected to translate into a commensurate increase in workload of REC Panel Members, to say nothing of the broader range of topics on which they may be expected to make decisions. Some of these issues may impact upon specific areas of interest, such as those relating to metering, Green Deal or third-part intermediaries. It will therefore be important that the REC Panel is properly supported by an informed and appropriately resourced Code Manager. It will also remain an option to delegate certain functions and possibly decisions to relevant sub-groups that may comprise experts in that particular field, though this would seem to run counter to our aim of reducing the proliferation of, and resource required to support, such groups. There may also be opportunity to consider a wider pool of candidates for REC Panel membership, if their area of interest and expertise make up a sufficient proportion of REC Panel workload.

3.37. We also consider that the candidate individuals for the respective REC Panel and RECCo Board positions are likely to require different skill sets and experience, as well as different expectations of the role.

3.38. The creation of a strong REC Panel would free the RECCo Board to focus on more strategic objectives for the REC, as well as providing external expertise to support and advise the REC Panel, as well as providing effective oversight of it. In particular, a separate RECCo Board would strengthen the accountability of the REC Panel for any decisions and/or actions it takes.

3.39. We also consider that it will be important, at least in the longer term, for the RECCo Board to be of sufficient quality and appropriately empowered and resourced to act as an effective counterweight to those parties who may otherwise hold asymmetric power within the industry arrangements, protecting the interests of all REC Parties. This would particularly be the case if significant contracts are in due course novated to, or otherwise struck with, RECCo.

REC Panel composition

3.40. However, we do not entirely agree with the Regulatory Design Team on the composition of the Panel. Whilst we recognise that this can be quite a subjective area, we do not consider that the REC mission statement would be best fulfilled if the REC Panel was to be made up wholly, or dominated, by incumbent market participants, or individuals representing their interests.

3.41. There are four considerations with respect to the composition of the REC Panel that we think need to be taken into account:

- Accountability – the REC Panel will be making day to day decisions on issues that impact on the operation of the retail market. This will have an impact on consumers and on the ability of both existing and new market participants to develop and offer new products and services. It is important that the REC Panel be accountable for delivering outcomes that are in the consumer interest and that support innovation and change where that will deliver outcomes that are in the consumer interest. We think this is likely to be best achieved by having independent members on the REC Panel with a specific remit to promote these outcomes;
- Enfranchisement – those parties responsible for the funding of the REC and associated services, and those required to comply with the rules of the REC and give effect to changes to those rules, must be confident that their interests will be fully and accurately understood and appropriately reflected in decisions of the REC Panel. This is likely to be best achieved through an elected representative approach as is common in other codes currently;
- Expertise – we must ensure that representation of the REC Panel is sufficiently wide and balanced to ensure that it is able to make quality, informed decisions, having appropriate regard to the diverse scope of parties and their particular interests, whilst also retaining a degree of consistency and integrity of the arrangements as a whole. We think this is likely to be best achieved by having a relatively broad range of identified expertise that can be drawn on as appropriate; and
- Size – it is important that the REC Panel can discharge its role effectively; too large a Panel could make a meeting and any discussions held therein unwieldy, and difficult to reach a consensus or other form of resolution. It will be necessary to achieve the other three goals without making individual REC Panel meetings or decisions processes inefficient.

3.42. In addition to the operation of the REC Panel itself, we are also conscious of the time and resource commitment that individuals and their employers must make in order to support industry governance bodies, particularly if they are habitually held as face-to-face meetings in a given part of the country, usually London. We understand that this has in the past made it difficult for code bodies to secure long-term and consistent representation from smaller organisations or independent experts.

3.43. We are keen to ensure that the REC Panel composition we put in place is credible and that any representative roles will be filled by the category of party for whom they are created. As we continue to develop the REC arrangements, we will therefore seek to identify and embed appropriate practical measures that would address these logistical problems. For instance we would expect effective telecommunications facilities to be provided as standard for all meetings. Where face-to-face meetings are preferred or unavoidable, the choice of venue for those meetings should take into account the normal working location of attendees. We also consider that reasonable travel expenses should be reimbursed by RECCo.

3.44. Although the Regulatory Design Team put forward options on how the REC Panel may be constituted, we consider that more thought is needed on how to ensure an appropriate focus on consumers' interests. We are therefore not proposing to firm up the REC Panel composition proposals at this time. Although we expect the REC to be fully functioning from the time that v1 is designated, we consider that there will be little or no ordinary modifications business for the REC Panel (or REC Manager) to deal with. As set out in Chapter 6 all drafting of the future v2 will be undertaken by Ofgem under the auspices of the SCR processes and only enter the modifications process when we are confident that the drafting fully reflects the final systems and operational processes that will go-live with the CSS. Subsidiary documents, such as technical documents, will not be incorporated in the REC, and therefore not be subject to REC change control, until REC v2 is brought into force. Any technical documents produced and used during DBT will be agreed and managed through programme controls, including programme change control.

3.45. To the extent that there is any ad hoc business that would ordinarily have required the input of a REC Panel, we propose that, over this interim period while v1 is in place, that role be discharged by a combination of the current SPAA Executive Committee and MRA Executive Committee members. Those bodies have already been instrumental in the development of these proposals and in the wider programme, and will continue to be so at least until the existing provisions of their respective codes are migrated to the REC, or other codes as may be appropriate. We consider that this arrangement would be effective, cost-efficient, and it is hoped acceptable to parties given that the individuals on those bodies have already been elected or otherwise selected through existing code procedures.

3.46. We set out below some principles that we would expect use to define the precise composition of the REC Panel, that we would expect to put in place ahead of the introduction of REC v2. Drawing on the points above, those principles are:

- The REC Panel should have independent members sufficient in number, or with sufficient voting rights, to ensure that decisions are not taken against the consumer interest;
- The REC Panel should have representative members in sufficient numbers, and with constituency responsibilities, such that all categories of REC party can be assured that their interests will be represented in all decision making processes;
- The REC Panel should be able to draw on any relevant expertise it needs to inform its decisions;
- The REC Panel must be capable of acting quickly and reaching decisions without undue delay.

3.47. We recognise that stepping away from the Regulatory Design Team recommendation for the composition of the REC Panel, and in particular proposing the introduction of independent REC Panel members with responsibility for promoting consumer interests, is likely to be controversial with many industry stakeholders, and in particular with those who will be obliged to become REC parties. We are keen to get your views on the merits and risks of this proposal and the principles more generally, as we recognise that the REC parties must have confidence in these arrangements.

3.48. Typically, the membership of Panels or Executive Committees does not get reviewed following the establishment of a code. Given that the REC is expected to evolve over time and REC Panel matters may subsequently widen, the Regulatory Design Team recommended that the REC should place an obligation on for example, the RECCo Board to undertake a review of the REC Panel membership in consultation with industry. We agree consider that this is sensible and it is included in the REC drafting.

Q3.2: Do you agree with the proposal that independent Non-Executive Directors, potentially from outside of the energy industry, should sit on the RECCo Board and that the composition of that RECCo Board should be subject to thorough review, both periodically and/or whenever the scope of the REC/RECCo Board responsibilities changes substantively?

Q3.3: Do you agree with the principles for REC Panel Composition as set out in paragraph 3.43?

Code Modifications

3.49. We have noted earlier that, in line with CMA recommendations, we expect the REC to be a new kind of code, which puts consumer's interests at its heart. The proposals we are making with respect to RECCo Board and REC Panel membership seek to do that, and will ensure that consumers' interests are at the forefront of all key decisions. This should reduce the need for Authority involvement in decisions on Code Modifications. In the interests of efficiency we want the REC to make any relevant operational decisions by self-governance, without any reference to the Authority. However, we still believe that it will be appropriate for modifications that could have a significant impact on consumers or the market to require Authority consent.

3.50. We aim to reduce complexity for users by having, as far as practicable, a single change process applicable to any document that sits under the REC framework. However, there should be differing options within this process that allows for a proportionate and flexible approach, particularly for non-complex changes.

3.51. We also aim to make a clear distinction between the expectations and/or level of evidence required for those changes which require Authority consent rather than being subject to self-governance. All changes will require a triage, building upon the materiality tests currently used within codes, to include a specific assessment of the impact on consumers, innovation, competition and market stability to determine whether they are properly for Authority decision or not. Any self-governed Change Proposal will appropriately focus on the business case, rather than necessarily an assessment against the REC relevant objectives. We would not require voting parties to substantiate their reasons. Where a Change Proposal requires Authority consent or is the subject of an appeal to the Authority, an assessment of the Change Proposal against the relevant REC objectives will be included. We would expect the REC Manager to have ownership of, and provide quality assurance over, these reports. We propose that the REC objectives are follows:

- a) *to ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement;*
- b) *to ensure customers' interests and data is protected in the operation of the REC; and,*
- c) *to drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructures it governs.*

3.52. Overall responsibility for the change process will be split between the REC Panel and the REC Manager, each of whom shall have defined functions within the REC. We propose that both the REC Panel and the REC Manager are accountable to the RECCo Board, through periodic performance reporting.

3.53. Wherever appropriate the REC change procedures will be consistent with the principles set out in the Code Administration Code of Practice (CACoP), but will also reflect the additional roles and responsibilities expected of a Code Manager, rather than an administrator. We provide only a summary of the rules, below, the full REC modification process is set out in full as part of the draft REC which is published alongside this document.

Raising a Change Proposal

3.54. A Change Proposal may be raised by any of the following:

- a REC Party;
- the Consumer representative body e.g. Citizens Advice;
- the REC Panel in limited circumstances [to be defined];
- the REC Manager in limited circumstances [to be defined];
- any persons representative of interested third parties as may be designated in writing for this purpose by the Authority from time to time (or permitted to raise a modification under an alternative, appropriate process established by, for example, the Code Manager or Panel – we are interested in respondents view on this). We would expect that in most instances it may be appropriate for the Code Manager to be permitted to raise modifications for third parties - but it may also, for example, be a representative of another code in relation to changes designed to maintain alignment between codes); and
- the Authority or a Party acting at the direction of the Authority in limited circumstances [to be defined].

3.55. A Change Proposal must be submitted in writing by the person making the proposal (the Proposer) to the REC Manager. Where a standard form of Change Proposal has been published, the Proposer must submit its Change Proposal in accordance with that standard form.

Charges, Billing and Payment

3.56. We consider that the current cost recovery mechanisms within the SPAA and MRA provide a good basis for how RECCo will recover its costs in respect of running

the REC. This would include any costs associated with the REC Manager and other such support services that may be procured by the RECCo. We anticipate that in future, the RECCo may also inherit the management of some other contracts that are not directly related to the running of the REC, but involve services that are governed by the REC. For instance, it may in future be appropriate for RECCo to contract manage the Theft Risk Assessment Service contract.

3.57. We also consider that the CSS may in due course be contracted directly by the RECCo, either, beyond the current licence term, through the holder of the Smart Meter Communication Licence or directly with the individual providers of those services. Under its existing Licence, DCC remains subject to a price control and direct oversight by the Authority, it would be appropriate for its funding arrangements in relation to switching to novate from the SEC to the REC. In order to provide certainty to all parties, we would expect the charging methodology to remain the same at that point, simply for charges to be recovered through invoices to be issued by the RECCo, rather than as part of the SEC arrangements. If the CSS operational costs are driven by transaction volumes it would be appropriate to consider whether, once the CSS is live, a proportion of the costs should be allocated by transaction volumes.

3.58. This would mean that once we are under steady state operations, suppliers would receive an invoice from RECCo with two distinct service lines, the first covering RECCo charges, and the second covering CSS charges. Again, this model would be similar to current arrangements for the recovery of costs associated with the Theft Risk Assessment Service, which is set out in both the SPAA and DCUSA, but also subject to a separate (and commercially confidential) contract between SPAA Ltd/DCUSA Ltd and Experian.

3.59. We propose that the RECCo costs be recovered on the basis of market share, i.e. based on the number of individual meter numbers (MPxNs) held by a party at a given point in time. This would mean that the supplier of a single fuel premise would pay only one unit charge, whereas a dual-fuel supplier would pay two. This is effectively the same as the current situation, with SPAA and MRA costs being recovered separately. However, we also expect the future retail market to be more dynamic, and constituted of a wide range of smaller players than currently, and potentially with more than one supplier per MPxN. It would therefore seem appropriate for the number of MPxNs held to be gathered on a monthly basis (or whatever frequency ties in with any invoicing period parties may agree to be appropriate) rather than, as now, on an annual or quarterly basis. Given that the CSS will in future be the primary source of this registration data, we consider that the CSS provider should have an obligation within the REC to provide this data in a timely manner in order to facilitate RECCo invoicing.

3.60. We do not consider that the volume of energy flowing through the MPxN to be particularly relevant to the activities of the REC, and as such consider that the per MPxN contribution should be uniform, irrespective of End User Category or profile class, etc. in keeping with the scope of the Switching Programme, we do consider that REC and its charging arrangements should apply to all energy suppliers, and not exempt any that may be focused on a particular niche sector.

Disputes and step-in provisions

3.61. The MRA and SPAA currently have similar drafting with respect to disputes, though the former envisages a *disputes committee* and details the procedures of such a committee whereas the latter does not. At this stage of its development, we have assumed that the REC will not require a disputes committee.

3.62. The MRA also refers to third party claims, which are not a feature of the SPAA. At this stage of the REC development it is not clear who these third parties may be or what rights we would want to convey upon them.

3.63. At this stage it is not clear to us that there would be call for a dispute committee within the REC, and as such we have not included it in the draft text.

3.64. We note that there is a provision with the SPAA following a recently implemented change request requiring parties to go through SPAA Ltd, for any dispute that they may have with the Theft Risk Assessment Service provider. This was aimed at reducing the administrative burden on the Theft Risk Assessment Service (they would likely face disputes with several parties at the same time for any given failure) but also to ensure that the disputes were taken seriously. On the assumption that RECCo might eventually become the contracting party with the CSS provider, it would seem appropriate for it to similarly act on behalf of all CSS users. If DCC were to contract directly with parties, we would also expect any dispute to be dealt with directly. We will continue to develop our thinking on step-in provisions over the coming months.

Party default and breach of REC

3.65. As with other industry codes, continued participation in the REC will be subject to certain conditions being met. In the event that a Party defaults on these conditions, it may be necessary to suspend the provision of certain services and/or terminate their participation. These circumstances may include the revocation of the licence which required them to accede to the REC, or the company becoming insolvent. The suspension of services and rights under the codes can also apply if the Party is in material breach of its terms or conditions. However, we are sceptical as to whether the removal of voting rights is an effective sanction, whereas the removal of some service may be detrimental to the consumer. We therefore consider that whilst all of the codes now have some, if not the majority, of their change control being subject to effective self-governance, there is a capability gap in self-governance of compliance.

3.66. We aim to ensure that there are mechanisms within the REC governance that ensure provisions are actively monitored and if they are not being complied with, that suitable remedial action can, and will, be taken, without necessarily having to resort to regulatory recourse. Put simply, if something isn't considered to be of sufficient importance to monitor and enforce it, it probably shouldn't be considered a rule, and should instead be relegated to guidance or some other non-binding status. We consider that such an approach should ensure that the REC is applied in a

proportionate manner, only being binding upon parties where demonstrably necessary, and that there are means of ensuring compliance.

3.67. However, we also recognise that there must be a reasonable degree of discretion, and that an absolute requirement to comply with a given standard in every instance can lead to disproportionate compliance costs. We therefore consider that the REC should have regard to lessons learned in the Balancing and Settlement Code (BSC) and Uniform Network Code (UNC) in establishing a performance assurance regime, as below.

Performance Assurance

3.68. We propose that a Performance Assurance Board is established under the REC v2 to oversee specified aspects of the performance assurance regime. This would include:

- the maintenance of a Risk Register through ongoing risk assessment;
- monitoring compliance using various techniques, including performance reporting;
- managing the rectification of non-compliance as the escalation route where parties fail to deliver against their agreed corrective action plan; and
- imposing liabilities or other sanctions where rectification plans are not complied with.

3.69. The Performance Assurance Board should have access to relevant data from all parties, including anything that may be obtained from the CSS provider, for monitoring purposes. This would require the correct permissions to be obtained from the outset, and in the case of the CSS, perhaps stipulation of data reporting requirements as part of the procurement and subsequent contract. It is proposed that these requirements are acknowledged and accepted by parties as part of accession to the REC, preventing parties having to give permission or for a change to be raised for every new report that the Performance Assurance Board may reasonably require. However, if any party considers a request to be unreasonable, they would be able to escalate this to the REC Panel.

3.70. Whilst through these mechanisms we would expect the REC to be a largely self-governing code, we would also expect the Authority to have ongoing oversight of activities carried out under the REC Performance Assurance Framework. Reports of Party performance will be provided to the Authority on request, and it is proposed that where non-compliances are not addressed in an appropriate manner, they may be escalated to the Authority as a final step. The Authority shall also be responsible for appeals raised in relation to sanctions applied under the REC.

3.71. Given that the REC is a Consumer focussed code, the key provisions will be reflected in the Electricity and Gas Suppliers Licence and may also be subject to Ofgem monitoring. It is expected that the PAB would work closely with Ofgem to ensure that party reporting requirements are not duplicated, and where possible,

that Ofgem/the Authority may place reliance on the performance reporting carried out under the REC to avoid dual governance issues.

Limitation of liability

3.72. As the REC develops we would expect there to be provisions which cover the liabilities that Parties may be exposed to or, as the case may be, may expect to receive, in the event that services provided pursuant to the REC do not meet the required standards. These may take the form of prescribed liability payments designed to incentivise performance, or liquidated damages. For instance we note that the provision of the MPAS service under the MRA is subject to performance standards that if not met, may result in the Distribution Network Operators making compensation payments to suppliers. To the extent that the governance of any existing services is migrated to the REC we would expect also to transfer these standards and associated liability payments. We would also expect these principles to apply to any new services that may be provided under the REC. This would include the CSS.

3.73. We would also expect the REC to set out the limitations of these liabilities, both in terms of a cap on aggregate payments and the circumstances in which they may apply. In the case of services provided by the DCC, we need to ensure that any liabilities are entirely consistent with the incentives regime that will continue to apply as part of its price control, as set out in Chapter 5.

Classification of schedules

3.74. The SPAA currently has three classifications for schedules. The majority of schedules are initially designated as either mandatory, and therefore potentially within scope of the performance assurance and breach procedures set out above, or voluntary and therefore not enforced. However, Parties who are not mandatorily required to comply with a given schedule may nonetheless elect to, giving written notice of their intention to the SPAA EC. Whilst they are that point at least theoretically bound by the provisions of the schedule, it can at any point give a month's notice that it no longer wishes to be comply with the elective schedule. In practice these elective schedules apply primarily to I&C suppliers and independent Gas Transporters who were not originally obligated by licence to adhere to the metering provisions set out in the SPAA. There are no elective schedules under the MRA.

3.75. Given the universal nature of the switching arrangements that will be governed by the REC, we consider that the option of elective status for schedules would offer little if any value. They would also add unnecessary complexity to the governance arrangements, particularly in respect of reporting and performance assurance. We therefore do not propose to incorporate elective compliance with schedules as part of the REC governance.

Accession and Entry Process Requirements

3.76. In the September 2017 consultation document¹² we highlighted the current disparity between the electricity and gas codes regimes; electricity having quite prescriptive requirements both around initial entry and subsequent re-qualification of systems that have undergone substantive change, whereas there are no such established standards in gas. We considered that the anomaly would appropriately be addressed as part of the move towards genuinely dual fuel arrangements.

3.77. Given that we are proposing to introduce entry testing and qualification as part of the transition to the new switching arrangements, ensuring that parties are able to interact effectively both with the CSS and/or as the case may be with each other, we consider that it will be particularly important to ensure consistency between the treatment of incumbents and of new entrants. We would therefore expect these testing requirements and demonstration of compatibility to carry over into the enduring regime. However, we would expect this to be a relatively light-touch assessment, to be facilitated in future by the REC Manager. We recognise that introducing entry testing would impose costs on the operators of the CSS and other central services. We would welcome evidence as to those costs, and views on the proportionality of introducing entry testing for accession to the REC. Our proposals are set out in further detail in Appendix 2.

Q3.4: Do you agree that there should be entry and systems testing requirements placed on new entrants, comparable to those that we expect incumbent suppliers to undergo as part of the transition to the new switching arrangements?

¹² <https://www.ofgem.gov.uk/publications-and-updates/delivering-faster-and-more-reliable-switching-proposed-new-switching-arrangements>

4. Retail Energy Code: Content

Chapter Summary

This chapter provides further detail on the anticipated operational and technical content of the REC once the new switching arrangements go live (REC v2).

It outlines the logical hierarchy of the REC content, before providing further detail on the REC Operational Schedules and Technical documents which will be part of the REC.

A summary of the content of the key Operational Schedules has been described in this chapter, whereas the drafting itself is contained within the appendices.

Question Box

Q4.1: Do you agree with the proposed minimum content for REC v2 (as listed in Appendix 3)? Is there any other content we should consider for inclusion in REC v2? If yes, please provide further details.

Q4.2: Do you agree with our proposal that the REC Code Manager should collate Switching Domain Data and make it available to Market Participants? Or do you consider that the Data Master for each element of Switching Domain Data should make it available to Market Participants?

Q4.3: Paragraphs 4.20-4.24 suggest that the DCC should be subject to a data quality objective and performance standards around the quality of REL Addresses. Do you have suggestions on the quality measure areas and levels quality measures will take? Do you believe that the REC Panel should have a role in setting these targets (initially and/or on a periodic basis)?

Q4.4: Paragraph 4.25 outlines that the REL Address data quality indicator is currently intended to be an internal measure for the CSS. Do you believe there is value in making this available to other market participants? If so, please provide your rationale for this and outline which market participants should have access.

Q4.5: Paragraph 4.25. suggests that the DCC should set out the methodology it will apply to meet the REL Address data performance standards on an annual basis. Do you agree that it would be beneficial to make this methodology publicly available?

Q4.6: Do you support the creation of an Enquiry Services Schedule in REC v2? If so, which of the options around the requirements (in paragraph 4.32) do you prefer? Please provide details to explain your answer.

Q4.7: Do you agree with our proposal to create a REC Exceptions Schedule to be contained in REC v2, with the scope outlined in Figure 3? If not, please provide further details.

Q4.8: Do you agree that the grey areas highlighted in Figure 3 should be out of scope of an Exceptions Schedule for REC v2? If not, please provide further details.

Q4.9: A list of suggested content for a set of REC Technical Documents can be found in section 4.44. Do you believe that any of the content listed is unnecessary or is there any content that you would expect to be included? If so, please provide details.

Q4.10: Do you believe that table 1 captures all of the items that should become a REC subsidiary document? If not, please provide details of the additional items that should be included and why.

Q4.11: Do you believe we have assigned the correct responsibility for producing each REC subsidiary document? If not, please provide further details.

Background

4.1. The CMA¹³ investigation into the energy market highlighted issues associated with the complex and fragmented nature of current industry code governance. It is therefore important that we take the opportunity to design the REC in a way that ensures it is accessible to both current and any future market participants. Given that the full scope and community of market participants is expected to grow over time, the REC established by the Programme, will need to be designed for change and with the future scope in mind. It is our intention that the REC should become fully digitised, enabling users to easily identify the requirements relating to particular market role, or according to the products or services that the code user wishes to provide to a consumer. We consider that this would allow for better and more agile targeting of requirements than simply grouping them according to which licence(s) a participant currently holds. This may also facilitate any move away from a traditional supplier-hub model of market governance.

4.2. The Regulatory Design Team has reviewed examples of how codes are presented and operate in other industries. For instance, at this stage we consider that the FCA handbook may be a good model to emulate, though we will continue to seek stakeholder feedback on both the model and the lower levels features that they would like to see in any REC version. In developing the initial drafting that accompanies this consultation, we have not attempted to identify how that content may be presented in a digitised context, and envisage that the presentation and maintenance of the code in such a digital format will become the responsibility of the Code Manager, once appointed. We therefore wish to ensure that these future code design considerations are appropriately captured in the procurement and subsequent objectives of and contract with the REC Manager.

REC structure and components

Content hierarchy

4.3. The REC will be a new code and we want to take advantage of having a clean sheet to ensure that it is created in a way that is easy for users to navigate and understand. The REC will contain different types of provision, dealing with different areas of activity. We are grateful that we have been able to draw on the experience of Subject Matter Experts across multiple existing codes, to gain a better understanding of how these areas should be logically defined.

4.4. Figure 2 below provides a conceptual model and description of the proposed main REC components.

¹³ Source: CMA Energy Market Investigation, June 2016

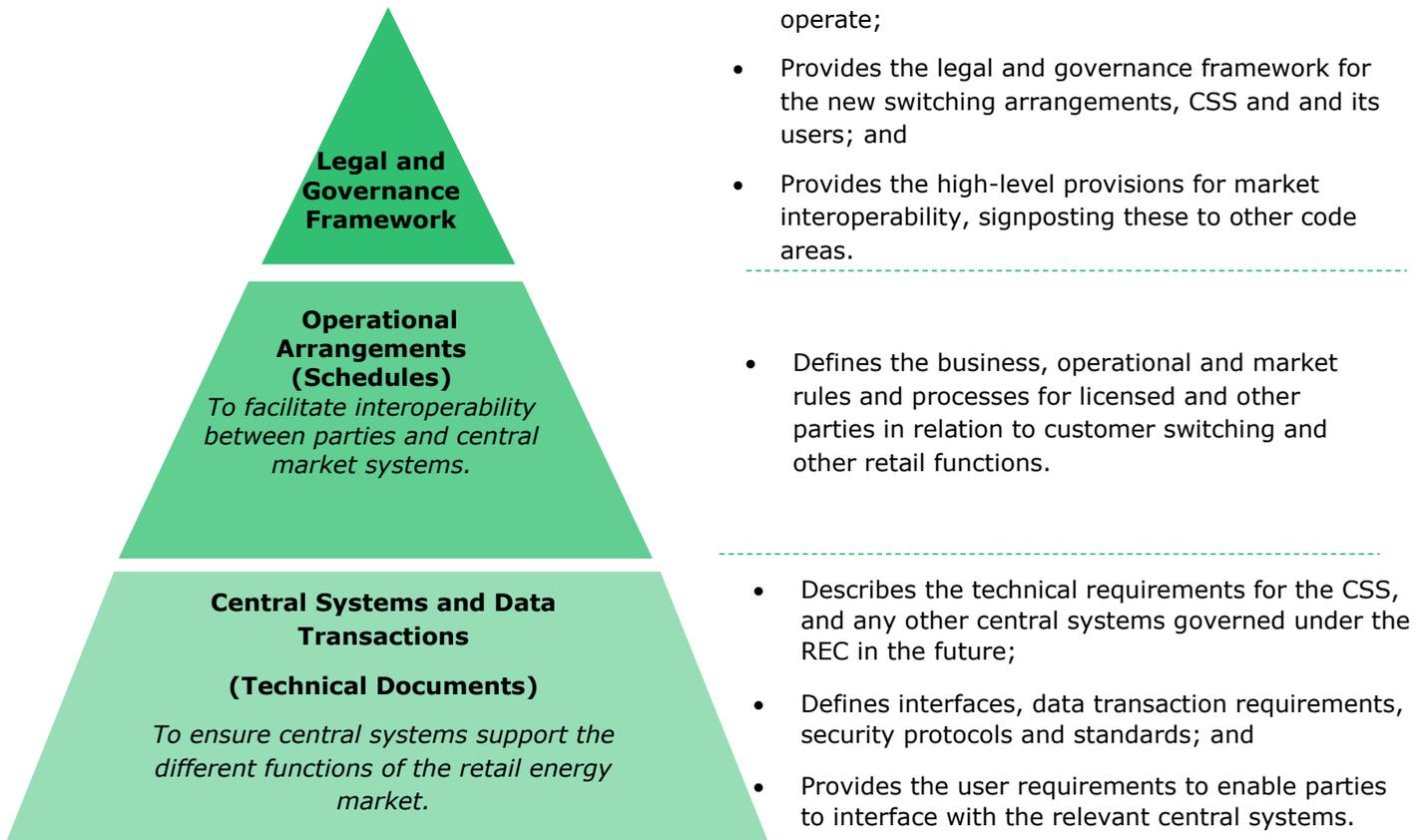


Figure 2: Components of the Retail Energy Code

Further detail

4.5 Chapter 1 provided details of the proposed content of the transitional REC (REC v1). At programme go-live, the REC v2 will be introduced with an expanded content to govern the CSS switching, registrations and related arrangements. A full list of expected minimum content for REC v2 is contained in Appendix 3.

4.6 The sections below provide further detail on the operational and technical content areas, including (where necessary) an explanation of why we believe these should form part of REC v2. Some of the content areas have been drafted and are listed in the appendices for comment, whilst other areas are at the policy development stage and will be converted to legal drafting once the responses to the consultation have been assessed.

Question 4.1: Do you agree with the proposed minimum content for REC v2 (as listed in Appendix 3)? Is there any other content we should consider for inclusion in REC v2? If yes, please provide further details.

Registration Services Schedule

4.7. At the heart of the switching reforms is a requirement on DCC to procure a new CSS that will facilitate reliable and fast switching across gas and electricity markets. The switching functionality that currently exists in separate gas (UK Link) and electricity (MPRS) switching services will be replaced with a single Central Switching Service.

4.8. Introducing the CSS is intended to simplify the existing fragmented arrangements and make it easier to adapt to changes in the way consumers interact with the market; central to this is the governance of the CSS under the single governance structure of the REC.

4.9. The REC's Registration Services Schedule outlines the key switching activities undertaken by the CSS and the interactions between the CSS, other central services and market participants. It captures the key policy positions and process changes outlined in previous programme documentation and translates them into code obligations. Process areas include (but are not limited to): initial registration within the CSS; the submission of switching requests; the validation of these requests; objections; withdrawals; annulments; and gas transporter initiated registrations.

4.10. This schedule also includes other Registration Events such as change of Shipper and change of Domestic/Non Domestic indicator. For completeness, the process for updating the CSS with other registration data such as the identity of the Meter Equipment Manager, Data Collector, Data Aggregator and Meter Asset Provider are also included.

4.11. It should also be highlighted that we expect this schedule¹⁴ to contain a requirement on the CSS Provider to enter into agreement, on fair, reasonable and non-discriminatory terms, on request with any communications network service provider who demonstrates that they meet the communication standards detailed in the REC Technical Documents. This requirement is not yet drafted but will be contained in the version produced after the consultation responses have been assessed.

4.12. The proposed drafting of the Registration Services Schedule is contained in the Registration Services Schedule subsidiary document¹⁵. This implements the new switching arrangements as set out in the Outline Business Case and baselined E2E and CSS design products. We welcome views on the drafting of the document, in relation to whether it accurately and satisfactorily implements the new

¹⁴ We may also consider whether there would be benefit in this requirement being placed in a separate 'Communications Schedule'

¹⁵ See document: [Registration Service Schedule](#)

arrangements, and on any provisions that add to, or expand on, existing material. This consultation is not intended to re-open issues that have already been settled in the Outline Business Case or in published baselined products.

Data Management Schedule

4.13. The Data Management Schedule describes the processes, interfaces and timetables related to the update of Switching Domain Data by Data Masters, ie. those parties that are responsible for a data element, and the role of the REC Code Manager in making this available to market participants. It also describes the structure and categorisation of CSS Messages and Receipt Responses.

4.14. The Switching Domain Data is the set of Data Elements that will be included in messages to and from the CSS Provider. Each Data Element has a single Data Master and it is the responsibility of the Data Master to ensure that its Data Elements are correct and up-to-date.

4.15. The processes contained within the Data Management Schedule will ensure that a common set of data is used across all REC Parties, including the CSS Provider, to identify each Market Participant; and that commercial associations between Suppliers and Shippers and regulatory associations between Network Operators and Suppliers / Shippers are accurately reflected in the CSS.

4.16. The REC Code Manager is the Data Master for some of the Switching Domain Data elements and some elements are mastered under existing industry Codes by the BSCCo, the Gas Retail Data Agent or MRASCo. The Data Masters will provide the Switching Domain Data directly to the CSS.

4.17. We have currently drafted the Schedule on the basis that the Data Masters will also provide this information to the REC Code Manager and the REC Code Manager will collate all Switching Domain Data and make it available to Market Participants.

4.18. However, an alternative option could be for the Data Masters to make data available to Market Participants. This would avoid the risks to data integrity inherent in the introduction of a further party in the provision of this data to Market Participants.

4.19. The proposed outline drafting of the Data Management Schedule is contained in Data Management Schedule subsidiary document¹⁶. Again, this schedule implements the data model established in the baselined design. We welcome comments on whether it accurately and satisfactorily implements the baselined data model, and on any provisions that add to, or expand on, existing material. This consultation is not intended to re-open issues that have already been settled in the Outline Business Case or in published baselined products.

¹⁶ See document: [Data Management Schedule](#)

Q4.2: Do you agree with our proposal that the REC Code Manager should collate Switching Domain Data and make it available to Market Participants? Or do you consider that the Data Master for each element of Switching Domain Data should make it available to Market Participants?

Address Management Schedule

4.20. As outlined in the Outline Business Case one of the main data issues associated with the current switching arrangements concerns address data. Poor quality address data is a major cause of failed and delayed and erroneous switches. We are proposing (see Appendix 4) to place a specific obligation on DCC, as the CSS Provider, to ensure high quality Retail Energy Location (REL) Address data. This obligation will be delivered through an address management process set out in the baselined design documents.

4.21. The CSS will be required to establish and maintain a premises-served address (referred to as a REL Address) for each registrable metering point (RMP). The aim of the REL Address is for it to be an address that is easily identifiable for consumers, suppliers and TPIS to help them select the correct address for switching. Where there are multiple meter points at a premises, the CSS will link these to the same REL Address.

4.22. We intend that the REC will contain a data quality objective and standards on the DCC for the REL Address, potentially with KPIs and incentives on DCC to exceed these standards or be penalised if they are not met. We expect the initial setting of the performance standards to be determined via the procurement process.

4.23. Once established, it will be for the REC Panel and DCC to amend the data quality standards and KPIs so as to most efficiently meet the objective of facilitating fast and reliable switching.

4.24. The CSS will be required to assign a data quality measure to the REL Address that will be used when monitoring performance against data quality standards. This data quality measure was initially proposed as an internal measure for the CSS, and the current design documentation reflect this. However, it has been suggested that market participants may find it useful to have access to this indicator.

Methodology and Reporting

4.25. The REC will not set out in detail how DCC is expected to meet the required quality standards. Instead, we expect DCC to publish an annual report detailing the methodology that it expects to follow to meet its requirements, the standards it will meet and to set KPIs. We do not anticipate a role for the Panel in agreeing this methodology, but they will have a role in agreeing the KPIs. DCC will also be required to report on an annual basis on its performance in meeting the data quality standards and against its KPIs. We expect the REC Panel to report to Ofgem on DCC's performance against the address data KPIs so that they can be taken into account in the relevant aspects of the incentive regime to be established as part of the DCC price control arrangements.

4.26. In addition to these annual reports, DCC will be required to provide the REC Panel with regular reports in relation to its data stewardship role on REL Address data management.

4.27. The proposed outline drafting of the Address Management Schedule, which captures the requirements above, is contained in Address Management Schedule subsidiary document.¹⁷It also outlines the responsibilities of other market participants in updating address data.

Q4.3: Paragraphs 4.20-4.24 suggest that the DCC should be subject to a data quality objective and performance standards around the quality of REL Addresses. Do you have suggestions on the quality measure areas and levels quality measures will take? Do you believe that the REC Panel should have a role in setting these targets (initially and/or on a periodic basis)?

Q4.4: Paragraph 4.25 outlines that the REL Address data quality indicator is currently intended to be an internal measure for the CSS. Do you believe there is value in making this available to other market participants? If so, please provide your rationale for this and outline which market participants should have access.

Q4.5: Paragraph 4.25. suggests that the DCC should set out the methodology it will apply to meet the REL Address data performance standards on an annual basis. Do you agree that it would be beneficial to make this methodology publicly available?

Enquiry Schedule

4.28. Our Outline Business Case set out that the existing enquiry services (the Electricity Central Online Enquiry Service (ECOES) and the Data Enquiry Service (DES)) would not be replaced as part of the Switching Programme. It was noted that industry is taking forward a programme of work to introduce a new gas and electricity enquiry service that would include the features of the Market Intelligence Service (MIS) that had been proposed under Reform Package 3; the aim of this to achieve the benefits of a unified enquiry service.

4.29. The MIS is being progressed by the industry in a joint Gemserv and Xoserve working group. The current proposals in this area will keep the existing ECOES and DES systems and the MIS would provide a common front-end for user access. This

¹⁷ See document: [Address Management Schedule](#)

means that ECOES and DES remain part of the switching solution architecture in the new switching arrangements and new interfaces will need to be created between CSS and ECOES as well as between CSS and DES to facilitate updates of registration and address data.

4.30. We are proposing that REC v2 contains an Enquiry Schedule. This schedule would contain details of the service description, process for gaining access to ECOES and DES, details of data items available to users and audit/monitoring requirements. Depending upon the scope of the schedule it could also provide a single source of requirements relating to the access and use of the switching data held in ECOES and DES.

4.31. As ECOES and DES provide other services to industry, we are not proposing to change the obligations for providing these other services for REC v2 as this would require further thought. These would remain in current codes (MRA and UNC) until there was further work undertaken by industry to assess the most suitable destination code for those obligations in the longer term.

4.32. In terms of the content for the Enquiry Schedule at REC v2, we believe that there are a number of options around the content of the requirements for access and use of data:

Option 1: All current governance from MRA, SPAA and UNC moves to the REC. However, only a small number of the DES data items are required for the switching aspects of the enquiry service. Therefore, the REC would need to govern a significant number of non-switching data items that are currently owned by shippers (who are not proposed to be signatories to the REC), and controlled under the UNC.

Option 2: To address the concern with option 1, only the governance of the switching related DES items should be transferred to the REC. However, this would mean that governance for access to DES data items would be split across the UNC and REC for DES i.e. the REC for switching data and the UNC for all other data.

Option 3: An alternative proposal to options 1 and 2, is that the data access governance for DES items remains in the UNC and only the ECOES items data access moves to the REC. To assist users with navigation of the codes, the REC would set out a common set of standards for service and thus provides a single source of reference for users requiring ECOES/DES access. However, in the event of a dispute, processes from the REC and the UNC would be called on.

Q4.6: Do you support the creation of an Enquiry Services Schedule in REC v2? If so, which of the options around the requirements (in paragraph 4.32) do you prefer? Please provide details to explain your answer.

Exceptions Schedule

Scope

4.33. As part of REC v2, we are proposing to establish a REC Exceptions Schedule. The schedule will outline processes for preventing and resolving issues that may impact the end-to-end customer experience of switching. The types of issues it could capture could include:

- **Switching issues related to meter types** – processes for preventing and resolving switching issues related to, for example, smart pre-payment meters, for example, the loss of pay as you go function after completing a switch or loss of credit upon switching Supplier.
- **Switching issues unrelated to meter type** – any issues related to the process of switching to a new supplier, including reliability and speed of the process that bear no relationship with the meter type, for example, erroneous Switches.
- **Billing and meter reading issues unrelated to meter type** – processes preventing and resolving issues that manifest themselves as customers being billed for the incorrect supply which could be due to incorrect opening and closing meter readings or customers being billed to the incorrect MPAN/MPRN.
- **Billing and meter reading issues related to meter type** – any future processes for preventing and addressing billing and meter reading issues that may be identified after a smart meter installation.

4.34. There are a number of “non-standard” switching and registration related processes that currently are governed under the MRA and SPAA (see Figure 3). We believe that some of these should be governed under REC v2, as they will require amendment as a result of the new switching arrangements or are envisaged to be part of the services provided by the CSS at go-live. These are represented in the green boxes.

4.35. The boxes in grey in Figure 3 represent those current industry processes where we do not anticipate significant changes being needed as a result of the programme, and are not proposing that these move to the REC for REC v2. However, we consider these could be potential candidates for the REC Exceptions Schedule in the future.

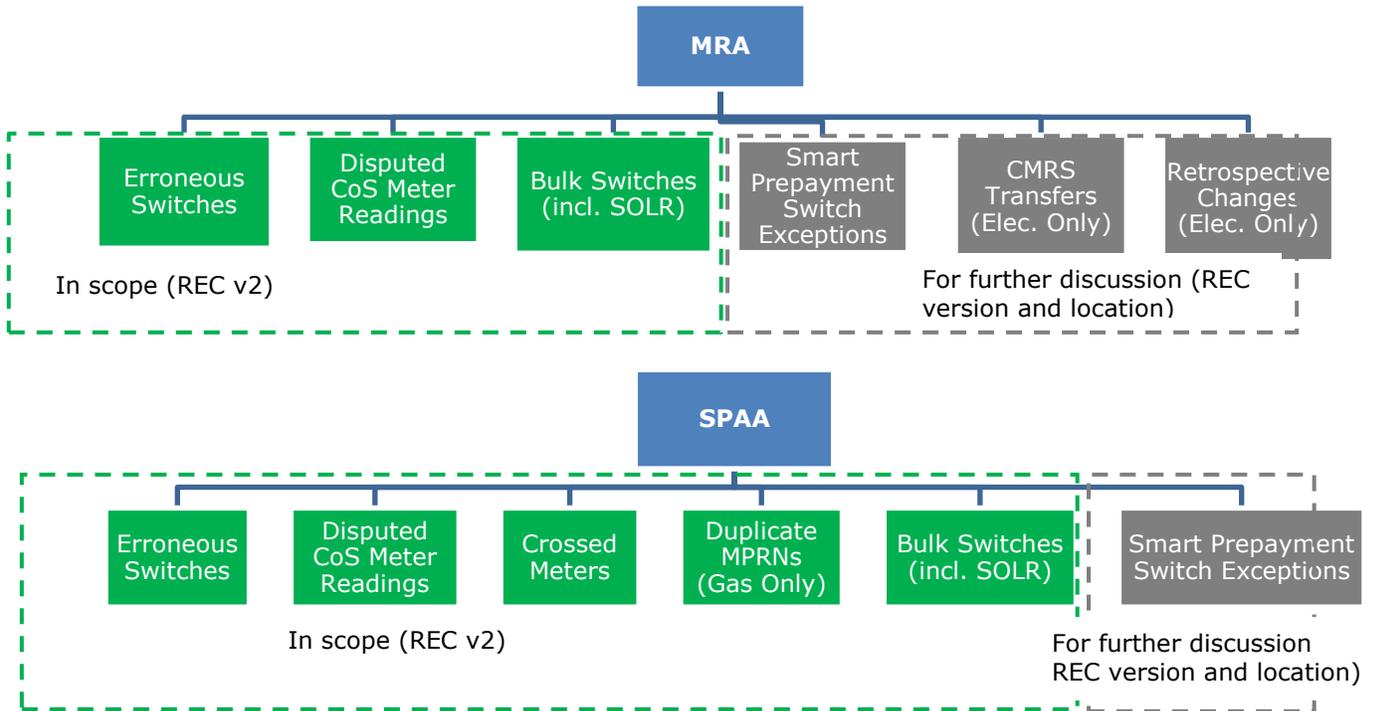


Figure 3: Candidate Content for the REC Operational Schedule on Exceptions and Other Content requiring further discussion to determine whether these should be in REC v2, a future version of the REC, or included elsewhere.

Approach

4.36. We have considered two approaches for drafting the REC Exceptions Schedule; a 'lift and shift' of the content from existing codes, using existing terminology for categorising issues (e.g. Erroneous Switches, Crossed Meters, Duplicate MPXNs, Disputed CoS Meter Readings, etc.) or re-modelling the schedule from a customer perspective and making it easier for new market participants to engage with the processes by categorising issues and the resolution of these based on different scenarios (e.g. customer is being billed for the incorrect consumption due to a crossed meter/ duplicate MPxN).

4.37. The advantage of the first model is that it would be relatively straightforward to draft and existing market participants are already familiar with the processes and terminology

4.38. Redrafting the schedule from a customer's perspective could be done by categorising current and any future exceptions processes based on customer scenarios (e.g. how the issues manifest themselves). For example:

- 1) A customer has been switched without their knowledge or consent (current ET resolution process);
- 2) A customer believes they are being billed for someone else's supply (a customer experience of crossed meters and duplicate MPXNs typically manifests itself as an issue where the customer believes is being billed for the incorrect consumption);
- 3) An energy supplier, network operator or meter operator discovers errors that indicate a customer is being incorrectly billed for their consumptions (similar to 2)

4.39. We believe it would be beneficial to draft the Exceptions Schedule from a customer perspective, ready for inclusion within REC v2.

4.40. Our longer term aim, which we believe is shared by the industry, is for full consolidation of the MRA and SPAA within the REC (with non-retail provisions going to appropriate alternative codes). This is important to ensure that the creation of the REC makes the code environment simpler, rather than more complex, and it would bring more harmonisation between the governance of both fuels and ensure that the more accessible and understandable approach within the REC covers more provisions.

4.41. We have said that it is not within the scope of the Switching Programme to deliver full consolidation to REC v3. However, we are keen to ensure that this work is achieved as quickly as possible, while ensuring any dependencies on, or risks to, the Switching Programme are effectively managed. We will work with relevant stakeholders to explore how this can be done.

Q4.7: Do you agree with our proposal to create a REC Exceptions Schedule to be contained in REC v2, with the scope outlined in Figure 3? If not, please provide further details.

Q4.8: Do you agree that the grey areas highlighted in Figure 3 should be out of scope of an Exceptions Schedule for REC v2? If not, please provide further details.

Technical Documents

4.42. REC Technical Documents will be required to provide information to REC parties about the specification of the CSS system¹⁸ and also set out how Parties should fulfil their obligations to interact with the CSS and each other. These documents will form part of the REC.

4.43. It is expected that it will be the responsibility of the CSS Provider to produce these documents in the DBT phase of the programme. During DBT and through to CSS go-live, any changes will be subject to programme change control. Following go-live of the CSS, REC v2 will be operational and these documents will be subject to the REC governance and modification processes.

4.44. At a working level, we believe that the REC Technical Documents could be broken down into the following four main documents and the content within these would include (but is not limited to):

- **A CSS Service Description Document:** availability, processing, reporting and performance standards and response timelines of the service including the Switching Network¹⁹. It should also define details of the testing environment and enquiry service/phone line.
- **A CSS Service Management Document:** release management, planned and unplanned outage management, contingency arrangements and error resolution processes and responsibilities for CSS issues.
- **A CSS Interface Document:** the CSS Data Model, Data Catalogue, interfaces, validation rules, response principles, rejection responses including any codes and technical and communication²⁰ standards.
- **A CSS Security Document:** the security standards and protocols applicable to the CSS, including provision of user accounts, procedures around unauthorised access, audit trail requirements and virus protection.

¹⁸ For the avoidance of doubt, the CSS system captures the Registration, Address and Network elements that comprise the overall CSS Service.

¹⁹ Where these services are provided by alternative service providers, it is expected that these service providers will provide this information but it shall be contained in a consolidated Service Description Document.

²⁰ This includes details of how the CSS will enable any future network providers to demonstrate they can meet minimum requirements to be able to transfer messages to/from the CSS.

4.45. In addition to the interactions between the CSS and the parties involved in switching, in the longer term, the REC will also incorporate wider energy industry processes associated with the broader switching process (e.g. the Retail Gas Metering Arrangements (RGMA) which covers the appointment of gas MAMs). This provision of a broader end to end process for REC parties means that transactions relevant to the REC will not necessarily involve the CSS Service Provider. If this is the case, it is expected that these transactions will also need to be defined by the relevant service provider in a Technical Document (or suite of documents) that will be incorporated into the REC schedules.

Q4.9: A list of suggested content for a set of REC Technical Documents can be found in section 4.44. Do you believe that any of the content listed is unnecessary or is there any content that you would expect to be included? If so, please provide details.

REC Subsidiary Documents

4.46. In addition to the REC governance, operational schedules and technical document areas, there will be other documentation that we expect to form subsidiary REC products.

4.47. These are varied in nature and the governance of these products (including the process for maintaining these) needs to be given further thought as they may not automatically sit under the REC governance that applies to other areas of the REC.

4.48. Table 1 below provides an overview of the items that we believe could become REC subsidiary documents and the parties that we expect to produce these in the first instance. The items with CSS content will be the responsibility of DCC.

Q4.10: Do you believe that table 1 captures all of the items that should become a REC subsidiary document? If not, please provide details of the additional items that should be included and why.

Q4.11: Do you believe we have assigned the correct responsibility for producing each REC subsidiary document? If not, please provide further details.

Product/Document	Description	Responsible for producing
RECCo Articles of Association	Sets out the role, purpose and objectives of RECCo.	Switching Programme
REC Framework Agreement	Sets out the agreement to be signed by those who become code members as a group for REC v2	Switching Programme/ REC Code Manager
REC Accession Agreement	Sets out the agreement to be signed by new entrants when they become Code members	Switching Programme/ REC Code Manager
Outstanding Issues	Provides a list of outstanding issues identified during the implementation of the CSS that will need to be resolved under enduring governance.	DCC

Business Process Models of the New Switching Arrangements (Abacus Extract)	An extract of the Abacus business process maps setting out the new switching arrangements. The REC Panel will be responsible for maintaining these post CSS go-live. The format of the BPM should not restrict the choice of BPM tool the REC Panel may choose to procure in the future.	DCC
CSS Procurement	CSS tender documents developed as part of the Switching Programme. The documents could be utilised by the REC Panel for any future re-procurements. (NB: This does not include CSS contracts)	DCC
Programme Handover Plan	A document setting out the plan for the handover of responsibilities and products from the Switching Programme to the enduring governance entity (REC Panel).	Switching Programme
Technical Specification Baseline Statement	A statement capturing all technical documents baselined by the Switching Programme at the point of handover of responsibilities from transitional to enduring governance. The baseline statement is likely to set out the document type, title, version, effective date, last changes implemented in documents and responsible governance entity (REC Panel).	DCC
Requirements Traceability	Tracking of baseline documentation requirements through to technical implementation	DCC
Escrow Procedure	If Escrow procedure required by the REC Panel.	Switching Programme / REC Code Manager

Table 1: Overview of Potential REC Subsidiary Documents

REC Interpretation Schedule

4.49. A REC Interpretation Schedule will be included within the REC.

4.50. It also sets out how the code is drafted to ensure that there is clarity of responsibility for obligations of Persons who are not Parties under the code. The table below provides a summary:

Person who is not a REC Party, but has an obligation contained within the REC	REC Party responsible for compliance
Gas Retail Data Agent	Gas Transporter
Electricity Retail Data Agent	Distribution Network Operator
Gas Market Intelligence Agent	Gas Transporter
Electricity Market Intelligence Agent	Distribution Network Operator

Table 2: Summary of Responsibility for Obligations of Persons who are not Parties under the Code

4.51. Shippers, Supplier Agents and Meter Asset Providers are not obliged to become REC Parties under this code. Where the REC places an obligation on one or more of them, then:

- for obligations which apply by reference to a particular RMP, the Registered Supplier for that RMP shall ensure that the Shipper, Supplier Agents and Meter Asset Provider registered in the CSS in respect of that RMP perform those obligations; and
- for obligations which apply without reference to a particular RMP, each Energy Supplier shall ensure that the Shippers, Supplier Agents and Meter Asset Providers registered in the CSS in respect of any or all the RMPs for which the Energy Supplier is the Registered Supplier at the relevant time perform those obligations.

5. The DCC Licence

Chapter summary

This chapter sets out our proposal to extend DCC's licence obligation in respect of the Switching Programme to include the incorporation, delivery and provision of the CRS. Further to this we outline the draft licence modifications in relation to DCC's role during the DBT phase and steady state operations. The chapter also sets out the proposal for DCC's cost recovery to ensure that it economically and efficiently meets its obligations.

Question Box

Question 5.1: Do you agree with the role we have set out for DCC during the DBT phase and steady state operations? If not, why not?

Question 5.2: Do you believe that our proposed drafting to amend LC 15 of DCC's licence would, if implemented, accurately reflect our expressed intentions? If not, why not?

Question 5.3: Do you agree with our proposal to add new CRS specific price control terms. Do you think any of these terms are unnesecary or are there other terms we should consider adding?

Question 5.4: Do you agree with the high-level programme outcomes we believe the programme should look to incentivise? Can you suggest further areas we should look to include and are there aspects you believe should be prioritised?

Background

5.1. In May 2016²¹ we modified the Smart Meter Communication Licence ("DCC licence"²²) to outline DCC's role in contributing to the development, documentation and procurement of the service capability to deliver the CRS²³ as set out in Licence Condition 15 (Incorporation of the Centralised Registration Service). This licence condition covers DCC's role up to the point of contract award of the relevant service

²¹ <https://www.ofgem.gov.uk/publications-and-updates/decision-dccs-role-developing-centralised-registration-service>

²² <https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf>

²³ CRS is the term used within DCC's licence and refers to the CSS, system integrator and core systems assurance during DBT

capability to deliver and operate the CRS. Alongside those licence obligations, we modified the scope of DCC's allowed revenue to include economic and efficient expenditure required to discharge these obligations. DCC is therefore able to charge industry parties for this expenditure. It does so according to charging principles set out in its licence and a methodology set out in the Smart Energy Code (SEC).

5.2. It is anticipated that there will be a continued need within the programme for a body to oversee the delivery and performance of the CRS and CSS during the DBT phase and steady state operations. We said in the OBC that we had decided in principal that DCC should be tasked with these roles and that this governance model for the delivery and operation for the CSS will be open to review as to whether it remains the correct model. In order to put this decision into practice we need to make sure that DCC is appropriately funded, and has clear obligations for its CRS role so that it is able to meet its obligations.

5.3. The obligations included within the licence modifications will be underpinned by a price control framework that will include financial incentives / sanctions. We intend to consult further on the margin and incentives framework in autumn / winter this year.

5.4. We are now consulting on the proposed modifications to the Smart Meter Communication Licence to allow DCC to enter in to contracts with the selected service providers, to oversee the development of the CSS and be responsible for the provision of the new switching service in the early years of steady state operations.

Proposed Licence changes

5.5. As set out in our September Consultation and our decision within the OBC we believe there is benefit in the party procuring the contracts for the CSS to act as the contract manager. DCC will design and negotiate the contracts that the selected service providers will enter into and this would include any provision of incentives / liabilities to help ensure successful delivery. This leaves DCC well placed to continue to manage these contracts and provide continuity as the programme transitions into the DBT phase and early years of operation. We believe that this should help mitigate some of the risks and challenges that would otherwise arise.

5.6. We are consulting on the licence modifications required to define DCC's role in providing the CRS during DBT and early years of steady state operations. DCC's role would be in the context of Ofgem remaining, until the end of the post implementation period, the overall programme sponsor and design authority, with implementation supported by independent coordination, assurance and integration functions. This is set out within chapter seven of our OBC¹¹. At the end of the programme (ie. following the post implementation period) it is expected that Ofgem will step away from the CSS and the switching arrangements and the governance of both will rest with the REC. As set out in Chapter four, this will be detailed within the Programme Handover Plan forming one of the subsidiary documents to the REC.

5.7. We are also proposing to add a requirement that DCC should become a party to and comply with the REC ensuring that DCC operates in accordance with the

agreed implementation performance and reporting regime set out within the REC. This would be added to Condition 21: Roles in relation to Core Industry Documents.

5.8. As we said in the OBC, this governance model for the delivery and operation for the CSS will be open to review as to whether it remains the correct model. One opportunity for review would be where the operation of the CSS should sit at the end of DCC's current licence term (September 2025). The initial review would likely start in 2022/3 to allow time to prepare for any transition at the end of the current licence term. This would be an appropriate time to consider whether provision of the CSS should form part of the retendered licence or whether it would sit better elsewhere, for example under the governance of the REC.

5.9. We have adopted the approach of principle based regulation for the Switching obligation within the DCC licence as we believe this will deliver better outcomes and give greater scope for adaptation in a changing environment. The licence modification will state general principles and outcomes rather than detailed prescriptive rules.

5.10. We have included a tracked changed version of relevant sections of the licence illustrating our proposed changes in Appendix 4 of this consultation document. We welcome any views on the intention and effect of these proposed changes at this stage. We expect to publish a statutory consultation in autumn/winter of this year on the final wording of the revised licence provisions.

Defining CRS

5.11. The licence term used within the DCC licence to refer to the Switching Programme is Centralised Registration Service (CRS). This term has a broad meaning and has been used to cover all aspects of the development and implementation of new switching arrangements to deliver faster and more reliable switching. As we have moved to a more precise definition of the specific services required, the term CRS is now only used within the DCC licence. For clarity, the term CRS is the DCC licence term referring to the full end-to-end programme requirements and services provided by DCC including, but not limited to:

- the CSS, including the registration service, the address service and service management, and communication network services;
- system integration functions; and
- core system assurance functions during DBT.

5.12. The CSS, as defined with in our Outline Business Case²⁴, will be responsible for making sure meter points are accurately matched to premise addresses from an authoritative GB database. The CSS represents the new, enduring capabilities upon

²⁴ In our chosen reform package (RP2a) the switching functionality that currently exists in separate gas and electricity switching services would be replaced with a single Central Switching Service (CSS)

which the switching service is built and operated. This includes, but is not limited to, a registration service, address service, service management and associated service infrastructure.

Phases of DCC obligations

5.13. The Switching Programme will close at the end of the post implementation period. The new switching arrangements and CSS will then be in steady state. In considering DCC's future role in the provision of the CRS we have split this into a role during the final phases of the Switching Programme (DBT and Post Implementation) and a separate role for operation of the CRS during the early years of steady state operation.

- **Design, Build and Test and Post Implementation:** The DBT phase starts from the point DCC enters into contracts with the CSS providers and lasts until go-live for the Post Implementation period. The Post Implementation period lasts from go-live until the programme SRO decides that the exit criteria to proceed to steady state operations have been met. These two phases combined include systems being designed, built and tested and a period of an enhanced level of support provided to ease early life issues. This, along with the proposed exit criteria and gateway assurance for transition, is further outlined within the E2E Design and Build Plan, E2E Testing Plan and E2E Integration Plan products²⁵.

This will be set out within the modified Interim Centralised Registration Service Objective of the Licensee (within Licence Condition 15).

- **Steady state operations:** Start from the point that the programme SRO decides that the required exit criteria and gateway assurance have been met. This represents the start of steady state operations of the switching arrangements. DCC's role in steady state operations will last until the Authority directs otherwise.

This will be set out within a new General Centralised Registration Service Objective of the Licensee (within Licence Condition 15).

5.14. We are not taking a view here, or specifically stating within the licence itself, as to how long DCC's operation role of the CSS should last. The changes to the licence allow for DCC's role in operation to continue throughout the contract term. However, there is a provision in DCC's licence which allows Ofgem to require DCC to cease activity under the switching obligation (Licence Condition 15). Decisions on the long term future of the provision of the CSS are likely to be affected by any changes in the regulation of the retail energy market. We have said that we will keep under review whether the DCC licensee remains the right party to be responsible for

²⁵ <https://www.ofgem.gov.uk/publications-and-updates/e2e-delivery-products>

operation of the CSS, and that the end of the current licence term provides a likely opportunity for such a review. Ahead of our statutory consultation later this year we will define a set of threshold criteria which would have to have been crossed in order for an earlier review of this position to be triggered. This may include:

- Persistent failure to operate the CRS or to meet the licence requirements; or
- Changes to market structures that mean Ofgem and or DCC believe that DCC is no longer best placed to operate the service following successful delivery.

DCC’s role

5.15. We have concluded, informed by the feedback from our September Consultation, that DCC should undertake the role of CRS Procurer & Manager. DCC’s role in this regard to the DBT phase is described in the E2E Design & Build Plan and CSS Delivery Plan¹². We have summarised this and DCC’s role during the early years of steady state operations below.

DBT phase	Steady state operations
<ul style="list-style-type: none"> • Delivery and provision of an economic, efficient robust and secure switching service • Contract Management of the Service Providers, including performance management and issuance of milestone completion certificates and associated payments • Acceptance of all design artefacts, including (but not restricted to) system, service, interface, hosting and data specifications. • Establishment of a CSS design baseline including: Registration Service, Address Service, Switching Operations Systems and Services and Infrastructure Services. • Establishment of a CSS Design Authority function which will maintain the CSS Design and Test Baseline, CSS Design requirements traceability matrix and test traceability matrix • Acceptance of all testing artefacts, including (but not restricted to) pre-integration test specifications, test data and test results. • Assurance of the results of unit/link, systems, non-functional and security testing prior to integration with other service provider systems 	<ul style="list-style-type: none"> • Provision of an economic, efficient robust, adaptable and secure switching service • Effective contract management of the Relevant Service Capability • Ensuring agreed performance standard are met including all service level agreements and key performance indicators • Managing the provision of a first line service desk and interfaces to Service Provider 2nd line service desks/service management systems • Ensuring all queries are responded to within agreed service levels where these queries relate to Service Providers managed under contract with DCC • Maintaining central CSS Design baseline and co-ordinating deployment of future releases (including integration testing) • Monitoring performance of switching service and managing remedial action with service providers under contract with DCC to ensure remedial action taken where performance shortfalls

<ul style="list-style-type: none"> • Specification of the scope of Factory Acceptance Testing and witnessing of this activity • Assurance of triage activities and establishment and management of defect escalation/rectification activities 	<p>identified</p> <ul style="list-style-type: none"> • Managing major incidents across E2E Switching arrangements – co-ordinating response across service providers • Providing an industry testing service including business continuity and disaster response testing
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Table 3: DCC’s role during DBT phase and steady state operations

Proposed licence changes

5.16. We propose to modify Condition 15 to add delivery and provision of the CRS to the existing condition for the incorporation of the CRS. We also propose to include a new general CRS objective on DCC in respect of operation of the CSS, following Post Implementation, along with the existing interim CRS objective.

5.17. Condition 24 places a general obligation on DCC to be appropriately resourced to enable it to properly and efficiently carry on its Authorised Business. Licence Condition 15.3 sets out that: “The Transition Objective and/or General Objectives of the Licensee shall prevail in the event of a conflict between their provisions and the requirements imposed on the Licensee by the Interim Centralised Registration Service Objective”. The general CRS objective would not be subject to condition 15.3.

5.18. Principle five of Condition 16 ensures that “Relevant Service Capability must be procured under contractual arrangements that make provision for the full and enduring protection of business continuity” which includes the provision for the transfer or novation of contracts to a Successor Licensee. As there is the potential for the provision of the CRS to be transferred independently to other licence obligations placed on DCC within its licence, or to a party that is not a licensee, we propose adding an obligation to Condition 15 allowing for the transfer / novation of CRS related business assets to a Successor Licensee or a future operator of the Central Switching Service as directed by the Authority. This would allow for the separation of responsibility for the Transition and General Objectives of the Licensee in relation to its provision of smart meter communication services and the CRS at some point in the future if it is considered appropriate and desirable.

Part A: Interim Centralised Registration Service Objective of the Licensee

5.19. We intend to include in DCC’s licence, the responsibility to provide the Relevant Service Capability to operate the CRS including the CSS, system integrator and core systems assurance during DBT. In line with DCC’s role during DBT set out in table 3 above we propose expanding the interim objective to include:

- establishment and maintenance of a CSS design baseline and design authority function in accordance with the requirements in the REC;
- proactive data stewardship for the Retail Energy Location Address that will lead to a very high level of continually improving accuracy for registerable meter points that meets or exceeds the standards defined within the REC; and
- provision of a secure and robust communications network that meets the requirements of the programme.

5.20. As the energy market is evolving we believe it is important that any procured services are capable of efficiently and economically adapting to future market requirements and as such we propose to add a condition to reflect this explicitly.

Part AA: General Centralised Registration Service Objective of the Licensee

5.21. This is a new section to Licence Condition 15 in which we propose to add a general obligation to cover the steady state operation period. This would include an objective for the provision and management of a reliable, efficient, economic and secure CRS that will improve consumers' experience of switching. In line with DCC's role during this period as set out above we propose including the below objectives:

- maintenance of a CSS design baseline and design authority function in accordance with the requirements in the REC;
- provision of a prompt and constructive approach to support change management meeting the service level agreements defined in the REC
- the CSS should be capable of economic and efficient adaptation to meet future market requirements; and
- as with the interim objective this also includes an objective in relation to proactive data stewardship and provision of a secure and robust communications network.

Part B: Requirement in respect of Authority direction

5.22. We propose to leave this section unchanged. The requirements set out here "includes a power to direct that any or all" of the obligations placed on DCC in relation to the Switching programme "shall cease to have effect". Situations where we might use this power would include if or when we felt the established governance model was no longer the correct option. This would be used with consideration to an appropriate notice period.

5.23. Part 1 Section G of the DCC licence allows for the Licence to be transferred in whole or in part, and this along with Part B of Licence Condition 15, would allow for the transfer of the CRS independently to the other licence obligations placed on DCC within its licence.

Part C: Interpretation

5.24. This section defines the CRS. We are proposing to update this definition to clarify the relation between CRS and CSS. We also intend to amend this definition to reflect the licence modifications that bring about the establishment of the REC e.g. the changes to SPAA and MRA. We are not in a position to do this at this time, but our intention is to include this updated definition in the statutory consultation in autumn/ winter this year. In the proposed drafting included in this consultation we have added placeholder text to state that this definition reflects the arrangements before the enduring REC is in place.

5.25. We also propose adding definitions for CSS, REC and steady state operations.

Consequential licence changes

5.26. We propose to clarify the definition of Fundamental Registration Service Capability ("FRSC"). FRSC must be competitively procured and cannot be supplied by DCC, Capita or its affiliates. The cost associated with the provision of FRSC are treated as CRS External Costs within DCC's price control. As currently structured only FRSC would count as CRS External Costs. We propose clarifying the definition by adding that this represents the new, enduring capabilities upon which the end to end arrangements of the CSS is based and as directed by the Authority. Given the services that DCC is required to provide to deliver the new switching arrangements, this would currently be the registration service and the address service (the competitively procured aspects of the CSS). As outlined within the licence the Switching Programme forms part of DCC's Mandatory Business Services and as such any CRS services not specified as FRSC should be treated as Relevant Service Capability.

5.27. Condition 21 sets out DCC's compliance duties in relation to the Core Industry Documents. We propose adding DCC's compliance duties in relation to the REC to this, including that DCC must be a party to, and comply with, the REC.

5.28. The CRS price control formula already allows for both an ex-ante and ex-post approach to be taken, and includes a separate CRS correction factor which reconciles differences between DCC's Allowed and Regulated Revenue. As our intention is to move the charging arrangements from the SEC to the REC there may be a need to duplicate some of the general price control terms for the CRS. We propose adding terms to the CRS price control formula to allow for specific CRS External Contract Gain Share, Value Added Service Contribution and Pass-Through Cost contributions to be included within price control formula. We propose adding these terms to Licence Conditions 35 and 36. This will give us the ability to use these terms if required as the programme develops. We would welcome views as to whether these additional terms are required or if further terms may be needed.

Cost recovery

5.29. It is important that DCC is appropriately funded, and has clear obligations for its CRS role so that it is not impeded in meeting its obligations.

Funding arrangements

5.30. Under the current funding arrangements, the costs associated with the development, documentation and procurement of the CRS are being met by users of the DCC Services through monthly fixed charges. Broadly, the CRS is currently being funded by energy suppliers and DNOs based on market share. The methodology for determining these charges are set out as fixed costs within Section K (Charging Methodology) of the SEC.

5.31. As outlined in Chapter 4 (Charges, billing and payment) the charging arrangements and methodology for DCC's cost recovery in relation to the operation of the CSS in steady-state operations will be fully reviewed and set out within the enduring REC v2 due to come in to effect at CSS go-live, currently planned for late 2020. Given the relatively short period until the enduring REC should come in to effect and the time to enact changes we believe it is proportionate to continue to use the existing charging methodology set out within the SEC for the DBT and Post Implementation period

Price control

Current framework

5.32. DCC's smart metering and switching price control arrangements are based on an ex post framework combined with forecasting of costs which are considered to be more likely than not to occur. This means that DCC estimates its required efficient expenditure for the year ahead and in future years to fulfil its licence obligations and passes these on in the form of service charges to its users. Ofgem reviews DCC's incurred costs in the year following the regulatory year in which they were incurred, as well as updated forecasts that meet the certainty threshold. Where we consider that spending has not been incurred economically or efficiently, costs can be disallowed. These decisions and any forecasting errors DCC has made in estimating its efficient expenditure for the year ahead are reconciled with the revenue DCC actually receives through adjustments in its charges to users in subsequent years.

5.33. The price control arrangements in place to cover DCC's activities under the existing switching licence obligations involve additional reporting requirements on DCC compared to its smart metering price control. We refer to this as an 'ex post plus' price control. Under these arrangements, DCC is obliged to set out a plan of activity and justify its forecast costs in an upfront business case and then deliver a quarterly report providing updates on expenditure. The business case is not baselined but helps ensure its projected activity and forecast costs are more transparent. DCC's achievable margin for the current phase of the programme is

subject to its performance in meeting certain delivery milestones to a required quality by a set date.

5.34. DCC published a re-baselined business case in February 2018 which saw its forecast costs for the current phase of the programme decrease significantly from £24m to £17m²⁶. DCC will be updating this business case following detailed design work and procurement planning for the Switching Service (summer 2018) to reflect greater clarity on what aspects DCC will need to procure and how any procurements will be structured.

Price control framework for DBT and Post Implementation

5.35. In extending DCC's licence obligation to cover the DBT phase and Steady State operation of the service we need to put in place a price control framework to regulate DCC's revenue for its activities during these phases of the programme.

5.36. There are still a number of uncertainties to be clarified during the DBT phase of the programme which could impact on the type and amount of resource required. Taking this into consideration, along with the significant decrease in forecast costs for the current phase of the programme as it has evolved, we believe that continuing with an ex post price control approach during DBT and post implementation will deliver the best value for consumers. We are at this stage only considering the DBT and Post Implementation period of the programme and this does not indicate a preference for the price control arrangement during Steady State operation.

5.37. Taking into consideration the uncertainty and proportionality of the DBT and Post Implementation period we propose to continue to ensure DCC incurs costs in an economic and efficient manner through an ex post plus arrangement where:

- DCC develops a switching business case setting out its role, activities and deliverables in relation to the DBT and Post Implementation period. This should detail the resource requirements to meet these along with the anticipated costs;
- The business case will be baselined for programme reporting purposes only and not for price control;
- The business case should be developed with input from Ofgem and programme stakeholders including the commercial forum. DCC intends to work on the initial draft of its business case for the DBT phase of the programme from summer / autumn this year;
- DCC will run a consultation ahead of the business case being baselined in which stakeholders can scrutinise and help ensure transparency;
- Stakeholders should be updated on progress against the case regularly throughout the year to make costs incurred, and cost changes relative to the baseline, more visible;

²⁶ <https://www.smartdcc.co.uk/about-dcc/future-service-development/switching-programme/switching-business-case/>

- DCC will report progress against this business case at a programme level. This reporting should include progress against time, cost and quality for DCC's identified deliverables and activities;
- The business case should be re-baselined at such point that it is identified that changes or clarifications to the programme would result in a material change in forecast costs (to be defined within the business case).

5.38. Our price control decision on DCC's acceptable costs and allowed revenue will remain ex post and against a zero baseline i.e. all incurred costs should be justified in the annual price control submission and review. As with the current arrangements DCC will have an obligation to ensure regulated revenue does not exceed a prudent estimate of its allowed revenue. DCC is also subject to a payment of interest where DCC has been able to justify any over recovery to our satisfaction²⁷. Where we consider that spending has been inefficient, costs can be disallowed and returned to users through adjustments in DCC's charges to users in subsequent years.

5.39. We are open to early engagement through our price control team on any proposed significant changes in costs (overspend, underspend, draw down of contingency) or the submission structure. We are likely to signal to DCC if we are concerned that information we have received indicates that it intends to incur costs that may not be economic and efficient. We are not able to pre-approve any costs or specify definitively all the costs that might not be economic and efficient before the ex post cost assessment has been undertaken. This is because we can only complete our assessment of the costs once we have received all of the relevant information and have conducted our own analysis of it. The ex post nature of the DCC price control means that this cannot be done until after the costs have been incurred.

Margin and incentives

5.40. Our May 2016 decision document setting out DCC's role in the Switching Programme set out that DCC can reasonably expect a margin for its Switching Programme activities which is commensurate with the degree of associated risk. We intend to carry this principle into the DBT phase of the programme. We will be developing proposals with programme stakeholders over the coming months for the level of margin that DCC may reasonably be expected to earn on the costs it economically and efficiently incurs. We intend to consult on the proposal for the margin and incentives framework in autumn / winter this year. Our intention is to run the margin and incentives consultation in parallel to the statutory consultation for the DCC licence modifications.

5.41. DCC's achievable margin for the current phase of the programme is subject to its performance in meeting certain delivery milestones to a required quality by a set date. For the DBT phase, we anticipate that DCC's achievable margin will be similarly linked to and underpinned by a framework of financial incentives / liabilities. We are

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https://www.ofgem.gov.uk/system/files/docs/2016/05/decision_to_modify_smart_meter_communication_licence_for_dcc_penalty_interest_rate_web_version.pdf

not specifying an incentive regime for Post Implementation or Steady State at this time, as more development of how the service will be run is needed.

5.42. This regime should be structured to encourage behaviours in line with the principles of the programme and mitigate delivery failures. This framework will be particularly important in this phase of the programme as all participants will be working to a common timetable and are consequently dependent on other contributors to meet deliverables.

5.43. There are a number of potential programme outcomes that we believe the incentive could and should encourage. These include:

- adaptability to future market transformation;
- timely delivery of quality outcomes;
- management of the delivery process in a way that is economic & efficient;
- reliable, secure & robust systems;
- proactive data stewardship – improved data accuracy and switching reliability; and
- regular, open and clear communication / engagement with all stakeholders.

5.44. We would appreciate views at this stage if these are the appropriate behaviours to encourage, if there are areas we should prioritise and/or if there are further areas we should look to encourage. We intend to consult on the incentives framework along with DCC's margin in parallel with our autumn/ winter statutory consultation. Following this, they will be further developed based on stakeholder input with an intention to issue the direction to take effect alongside the licence condition modifications.

Next steps

5.45. Based on the views received from this consultation we will further develop our proposed licence modifications. This will be done with input from programme stakeholders including the Commercial Forum ahead of our proposed statutory consultation in autumn / winter 2018. Following our decision on this and the final licence modifications being published there will be a 56 day stand still before the modifications come in to effect (anticipated December 2018 or early January 2019). We expect this to be ahead of anticipated contract signature dates:

- System Integration contract signature – Q1 2019;
- Core Systems Assurance contract signature - March 2019 (contract award Jan 2019); and
- CSS contract signature – May 2019 (contract award February 2019).

5.46. If, for some reason, this is not the case then we propose to issue a direction to DCC to enter into contracts in line with the outlined licence objectives. This is only likely to be relevant for the System Integration procurement.

5.47. In parallel with our statutory consultation we will also consult on a margin and incentives framework to underpin DCC's role during the DBT phase of the programme. This will be developed initially with input from the Commercial Forum and other programme stakeholders before going to consultation. The framework will



Switching Programme: Proposed modifications to regulation and governance

be further developed based on consultation responses and with input from programme stakeholders. We propose that our direction on DCC's margin and incentives for the DBT phase of the programme will take effect alongside the licence condition modifications.

6. Significant Code Review

Chapter summary

This chapter sets out the changes we propose to make to the scope and timetable of the switching programme Significant Code Review.

Questions Box:

Q6.1: Do you agree with the changes that we propose to make to the scope of the Switching SCR?

Q6.2: Are there any further changes that you consider we should make, either to bring something into scope, or to explicitly rule it out of scope?

Q6.3: Do you agree with our proposed approach of publishing the drafting of all SCR related changes circa Q1 2019, but waiting until systems have been proven through testing before submitting the proposals into the modifications process?

6.1 When we launched the Switching SCR in November 2015, we said that “we will refine the scope of the SCR, where we deem it appropriate to do so, in a manner best calculated to further our principal objective and general duties. This could be to ensure our SCR remains in line with development... Before doing so, we expect to undertake appropriate consultation with stakeholders.”

6.2 We signalled our intention to revise the scope of the SCR in both the September 2017 consultation and February 2018 OBC document. In particular, we recognised that the original Target Operating Model envisaged the governance of a new Central Registration Service (CRS), which would replace the existing gas and electricity registration services, would be provided through the Smart Energy Code (SEC). Since the SCR was launched, we have undertaken a number of consultations that have refined our reform proposals; our chosen option RP2a would no longer replace the existing registration services, but would introduce a more narrowly scoped dual-fuel switching service to operate alongside them. We have also assessed, as set out in previous consultations, that a new dual-fuel REC would provide more effective governance for the new service than the SEC.

6.3 We also envisaged that the SCR would conclude with us issuing directions to licensee(s) to raise code modifications giving effect to the new switching arrangements. Since that time the SCR process has evolved, providing three options for the modifications, as follows:

- 1) Ofgem directs licensee(s) to raise the appropriate modification(s);
- 2) Ofgem raises the modification proposal(s) itself; or,
- 3) Ofgem leads an end-to-end process to develop the code modification(s) including provision of legal text.

6.4 The introduction of the REC will have impacts on a number of codes and licences. We decided in February 2018 that the best way to ensure that there is a coordinated approach across the entire suite of code modifications, licence modifications and the development of the REC itself would be for Ofgem to continue to lead the end-to-end process as provided for under option 3).

6.5 We have also reflected upon some of the lessons learnt from Project Nexus and elsewhere, which were hindered by the delivery of certain business requirements captured within code, subsequently having a disproportionate impact upon systems complexity and cost. For instance, we consider that Project Nexus was unduly hindered by the incorporation of bespoke requirements for fewer than 100 unique sites that had never previously been incorporated into systems.²⁸ We therefore consider that the REC and other code modifications must incorporate any learnings from the DBT stage before being enacted. We consider that the Ofgem led end-to-end approach will facilitate this flexibility. However, this also means that we will extend the SCR phase further into the programme than originally envisaged in the 2015 launch statement, as set out below.

Scope

6.6 We set out below the changes we propose to make to the Switching SCR scope. These changes have been tracked against the version published in our November 2015 launch statement.

6.7 The scope includes:

- Changes to the regulatory framework to facilitate a new **Central Switching Service (CSS) CRS**, covering all supply points connected to gas and electricity distribution networks, ~~and decommissioning the existing registration services run by electricity and gas networks~~. This will include DCC price control and **CSSRS** charging arrangements.²⁹
- Reviewing ~~other associated any remaining network licence obligations linked to registration, including~~ requirements to ~~master and supply data to facilitate the retail energy market and or~~ to provide enquiry services, [for example in relation to UK Link, MPRS, ECOES, DES and DCC Smart Metering Services].
- Developing the requirements for a **CRS new CSS** that will provide **switching registration** services for the gas and electricity market and the data to support market functions, including energy settlement and network charging.

²⁸ We would note that such sites are typically connected directly to the transmission system and as such are, and will continue to be, out of scope of the switching programme.

²⁹ Under DCC's licence, the services that it must provide are defined as the "Centralised Registration Service". These terms are interchangeable for the purpose of the scope of the SCR.

- Facilitating reforms to the switching process for all domestic and non-domestic gas and electricity consumers (with the exception of those consumer types detailed below) to deliver reliable next-day switching.
- Harmonising the switching arrangements between the gas and electricity markets, where possible, taking into account differences in market requirements.
- Defining and identifying how to execute a transition and implementation scheme for the ~~CRS CSS~~ and new switching arrangements, **including changes to other impacted central systems**.
- Implementing the ~~new CRS Switching Programme arrangements~~ with all relevant industry parties who will operate in the new environment.

The scope excludes:

- The initial consumer acquisition activities, eg. marketing, before the point when a consumer **seeks to** enters into a contract.
- Defining new rules or requirements for how suppliers bill their consumers. But it should ensure that the new arrangements support suppliers in meeting their requirements for timely and accurate billing.
- Security keys are designed and built into smart meters as part of the smart metering installation and roll-out. Transitional arrangements reliant on the DCC exist to support changing the keys to the new supplier during the main installation stage. For the long term however, an enduring change of supplier process which places reliance on energy suppliers is being considered by the Smart Metering Implementation Programme led by the Department ~~of Energy and Climate Change~~ **for Business, Energy and Industrial Strategy (BEIS)**. The ~~CRS CSS~~ will support the new arrangements when they are implemented.
- The switching arrangements for consumers that are directly connected to the national electricity and gas transmission networks. These operate bespoke switching arrangements, and we are focusing on the arrangements for the majority of consumers.
- ~~Ofgem's review of objections. This work is being progress as a separate project. As described in Ofgem's 2015-16 Forward Work Plan, we are reviewing the objections process. This will include whether to improve current arrangements so that consumers in debt can get the best deal more easily, while ensuring suppliers are able to take appropriate steps to have debt repaid. The outcome of this work is important to the switching process and will feed into process design in the Blueprint Phase of the Switching Programme.~~
- ~~Ofgem's Priority Service Register review. This work is being progressed as a separate project. But we expect to incorporate the outcome of that review into the requirements of the CRS, noting that they may be implemented before the CRS goes live.~~
- Industry code consolidation **that is not directly relevant to, or impacted by, the switching arrangements**. The Switching Programme will remove major parts of existing codes, and incorporate new switching rules into the ~~SEC~~ **Retail Energy Code**. We recognise that this is an opportune time to ~~This could be an opportunity~~ rationalise some of the industry codes **governances**, where

significant aspects of particular codes would, going forward, be covered within ~~SEC~~ the Retail Energy Code. Where this cannot appropriately be achieved under the auspices of the Switching Programme SCR, This work would be undertaken as a separate project, but wherever possible following complementary and coordinated timelines. We will work with stakeholders to produce a coordinated industry work plan to this effect.

- Centralising Data Processing (DP) and Data Aggregation (DA).
- Consumer awareness campaign. The scope of the Switching Programme includes delivering a consumer awareness campaign ~~and we will explore how and who will undertake this activity during the Blueprint Phase~~. However, we do not expect this to be delivered through changes to industry code obligations. We have therefore not included it within the scope of the Switching SCR.

Q6.1: Do you agree with the changes that we propose to make to the scope of the Switching SCR?

Q6.2: Are there any further changes that you consider we should make, either to bring something into scope, or to explicitly rule it out of scope?

Timeline

6.8 As noted above, we originally considered that the SCR phase of the programme would end at the DLS phase, when we expected to issue directions to relevant licensees to raise the necessary code modification proposals. This would have marked the beginning of the Enactment phase. We now plan to retain full responsibility for the drafting of those modification proposals and all associated legal text. Those modification proposals will still enter into the normal modification process for consultation and for the appropriate Panel and/or voting mechanisms to provide a recommendation of whether they, or potentially any alternative proposals, should be implemented. However, as these will be fully developed proposals that will have already undergone substantive industry scrutiny, we would expect this to be a relatively short consultation.

6.9 The SCR arrangements were intended to bring all work associated with such a review to a single, definitive set of conclusions; they do not allow us to issue phased directions or modifications over an extended period of time. In other words, we have a one-off opportunity to get them right. We therefore plan to undertake this part of the process as late as possible in the DBT phase. This will ensure that the modification proposals fully reflect, and are complementary to, the final systems design, incorporating any changes that may have resulted from testing and/or defect resolution.

6.10 In keeping with our principle of the DBT phase being subject to left to right planning, we do not at this stage intend to give a set date for when we expect those modifications to be raised. However, we will provide as much certainty as possible to industry participants by publishing the modification proposals and associated text in advance of the DBT phase, maintaining them as living documents so that they

remain relevant are ready to use whenever we are sufficiently confident in the systems solution.

6.11 To illustrate this, we overlay these steps on the programme phase illustration originally used in the 2015 launch statement, as below:

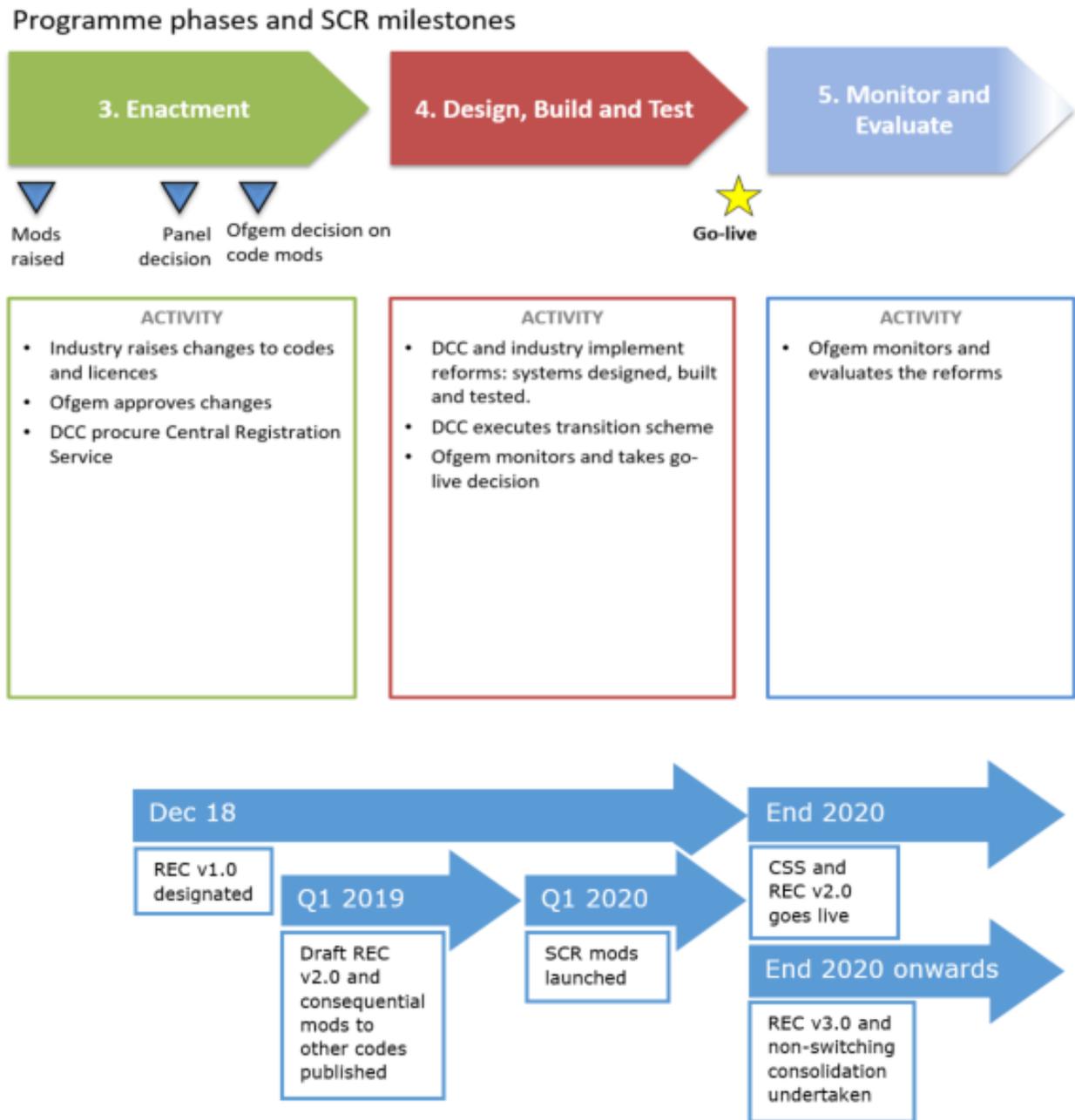


Figure 4: Programme Phases

Q6.3: Do you agree with our proposed approach of publishing the drafting of all SCR related changes circa Q1 2019, but waiting until systems have been proven through testing before submitting the proposals into the modifications process?

7. Next Steps

Chapter summary

This chapter sets out proposed next steps in relation to the modification of relevant licences, the enactment of the REC and the establishment of the RECCo.

Overview

7.1. In the February 2018 OBC, we set out the follow high level timeline for the production of the REC and associated governance:

- Q2-4 2018: Consult on transitional arrangements and key changes to enduring provisions, initiate statutory consultation on creation of the REC
- Q1 2019: potential for REC v1 to take effect providing governance for transitional requirements, and establish RECCo to initiate procurement of enduring REC code administrator.
- Q4 2019: initiate statutory consultation on modification of enduring licence conditions, issue final draft of code modifications to be pursued through SCR process; and,
- CSS go-live (possibly Q4 2020): Conclude the SCR, move CSS funding arrangements from SEC to REC and programme hands over responsibility to standard 'business as usual' governance.

7.2. With the publication of this consultation we are broadly on track to meet that timetable. We consider that there is opportunity to bring forward the drafting of the SCR modifications in order to provide great regulatory certainty to parties, though we intend to hold off on formally entering those drafting proposals into the industry code modifications procedures until we are confident there will be no further changes arising from the design, build and testing of systems. We note that some aspects of this plan are still subject to further development and consultation, not least through this document. We are also committed to progressing the latter stages of the programme on a left to right planning basis, ensuring that the timing of each milestone is contingent upon the successful completion of those before. Subject to those caveats, we consider that the next steps, insofar as the governance aspects of the Switching Programme are concerned, are as follows:

- Jun/July 2018: consultation of REC and switching governance proposals;
- Sept 2018: subject to consultation responses, issue statutory consultation on modifying all licences, as proposed in this consultation;
- Oct 2018: designate licence modifications;
- Dec 2018: licence modifications and REC transitional obligations take effect, RECCo formally launched;
- Mar 2019: subject to consultation responses and sufficient progress being made, anticipated suite of draft SCR modifications published; and
- Apr 2019: RECCo issues its first invoices and is able to fund new contracts and services, with an initial focus on a funding agreement for the delivery of the Ofgem procured delivery functions.

Appendices

Index

Appendix	Name of appendix
1	Consultation responses and questions
2	Accession and entry requirements
3	REC proposed contents list
4	Proposed DCC licence modifications
5	Proposed gas and electricity supply licence modifications
6	Proposed modifications to the gas transporters' and electricity distributors' licence
7	REC main body and schedules

Appendix 1 – Consultation responses and questions and general feedback

1.1. We want to hear from anyone interested in this document. Please send your response by email to switchingprogramme@ofgem.gov.uk by no later than 31 July 2018.

1.2. We ask for your feedback on each of the questions throughout this document. Please respond to each one as fully as you can. For ease of reference, the full list of consultation questions is provided in this appendix.

1.3. Unless you mark your response confidential, we'll publish it on our website, www.ofgem.gov.uk. You can ask us to keep your response confidential, and we'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

1.4. If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in an appendix to your response.

Chapter 2: Transitional requirements

Q2.1: Do you support our proposal to introduce a high level duty upon licensees to cooperate, where appropriate, in delivering the outcome of a significant Ofgem-led programme, such as a SCR?

Q2.2: Do you agree that the RECCo should be established earlier than REC v2 in order to assist with the successful delivery of the Switching Programme?

Q2.3: Do you agree that the bodies constituted under the REC could suitably play a formal part in the programme governance?

Q2.4: Do you agree that our definition of 'large supplier' in REC v1 is suitable for ensuring an adequate level of engagement with User Entry Process Testing?

Q2.5: Do you agree that it would be appropriate to have in place interim governance arrangements prior to REC v2 coming into effect?

Chapter 3: REC Governance

Q3.1: Do you agree with the proposed powers and functions of the RECCo Board, REC Panel and REC Manager, and how they would be distributed amongst them?

Q3.2: Do you agree with our proposal that independent Non-Executive Directors (NEDs), potentially from outside of the energy industry, should be present on the RECCo Board and that the composition of the RECCo Board should be subject to thorough review, both periodically and/or whenever the scope of the REC/RECCo Board responsibilities changes substantively?

Q3.3: Do you agree with the proposed composition, powers and functions of the REC Panel?

Q3.4: Do you agree that there should be entry and systems testing requirements placed on new entrants, comparable to those that we expect incumbent suppliers to undergo as part of the transition to the new switching arrangements?

Chapter 4: REC Content

Q4.1: Do you agree with the proposed minimum content for REC v2 (as listed in Appendix 3)? Is there any other content we should consider for inclusion in REC v2? If yes, please provide further details.

Q4.2: Do you agree with our proposal that the REC Code Manager should collate Switching Domain Data and make it available to Market Participants? Or do you consider that the Data Master for each element of Switching Domain Data should make it available to Market Participants?

Q4.3: Paragraphs 4.20-4.24 suggest that the DCC should be subject to a data quality objective and performance standards around the quality of REL Addresses. Do you have suggestions on the quality measure areas and levels quality measures will take? Do you believe that the REC Panel should have a role in setting these targets (initially and/or on a periodic basis)?

Q4.4: Paragraph 4.25 outlines that the REL Address data quality indicator is currently intended to be an internal measure for the CSS. Do you believe there is value in making this available to other market participants? If so, please provide your rationale for this and outline which market participants should have access.

Q4.5: Paragraph 4.25. suggests that the DCC should set out the methodology it will apply to meet the REL Address data performance standards on an annual basis. Do you agree that it would be beneficial to make this methodology publicly available?

Q4.6: Do you support the creation of an Enquiry Services Schedule in REC v2? If so, which of the options around the requirements (in paragraph 4.32) do you prefer? Please provide details to explain your answer.

Q4.7: Do you agree with our proposal to create a REC Exceptions Schedule to be contained in REC v2, with the scope outlined in Figure 3? If not, please provide further details.

Q4.8: Do you agree that the grey areas highlighted in Figure 3 should be out of scope of an Exceptions Schedule for REC v2? If not, please provide further details.

Q4.9: A list of suggested content for a set of REC Technical Documents can be found in section 4.44. Do you believe that any of the content listed is unnecessary or is there any content that you would expect to be included? If so, please provide details.

Q4.10: Do you believe that table 1 captures all of the items that should become a REC subsidiary document? If not, please provide details of the additional items that should be included and why.

Q4.11: Do you believe we have assigned the correct responsibility for producing each REC subsidiary document? If not, please provide further details.

Chapter 5: The DCC licence

Question 5.1: Do you agree with the role we have set out for DCC during the DBT phase and steady state operations? If not, why not?

Question 5.2: Do you believe that our proposed drafting to amend LC 15 of DCC's licence would, if implemented, accurately reflect our expressed intentions? If not, why not?

Question 5.3: Do you agree with our proposal to add new CRS specific price control terms. Do you think any of these terms are unnecessary or are there other terms we should consider adding?

Question 5.4: Do you agree with the high-level programme outcomes we believe the programme should look to incentivise? Can you suggest further areas we should look to include and are there aspects you believe should be prioritised?

Chapter 6: The SCR process

Q6.1: Do you agree with the changes that we propose to make to the scope of the Switching SCR?

Q6.2: Are there any further changes that you consider we should make, either to bring something into scope, or to explicitly rule it out of scope?

Q6.3: Do you agree with our proposed approach of publishing the drafting of all SCR related changes circa Q1 2019, but waiting until systems have been

proven through testing before submitting the proposals into the modifications process?

General feedback

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we've conducted this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
1. Do you have any comments about its tone and content?
2. Was it easy to read and understand? Or could it have been better written?
3. Were its conclusions balanced?
4. Did it make reasoned recommendations for improvement?
5. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

Appendix 2 – Accession and Entry Requirements

Licensed REC Parties

1.1. In the September 2017 consultation, we set out our initial views on potential parties that we would obligate by licence to accede to the REC. These proposals have been further assessed as part of the Detailed Level Specification (DLS) phase and the parties that we propose to obligate to accede are shown in the table below. The table also shows those parties that would be required to undertake entry assessment.

REC Party Category	Licence	Accession	Entry Assessment
Energy Suppliers	<ul style="list-style-type: none"> Electricity Supply Licence Gas Supply Licence 	Yes	Yes
Network Operators	<ul style="list-style-type: none"> Distribution Network Licence Gas Transporter Licence 	Yes	Not applicable for REC v1 and v2 but could change in the future if the scope of the REC changes
CSS Provider	<ul style="list-style-type: none"> Smart Communication Licence holder in its role as CSS Provider 	Yes	Not applicable, subject to separate requirements.

Table 4: Parties required to accede to the REC and undertake entry assessment

Accession

1.2. Accession describes the process by which an entity becomes a party to the REC. There will be a simple accession process where a party can accede to the REC, subject to the provision of certain basic company, legal and financial information. We do not anticipate parties being required to pay an application fee, instead these costs will be spread across all REC parties.

1.3. If parties have acceded to the REC and wish to interact with the CSS, we believe that those parties who have not participated in testing during the implementation of the REC should complete an Entry Assessment.

Entry Assessment

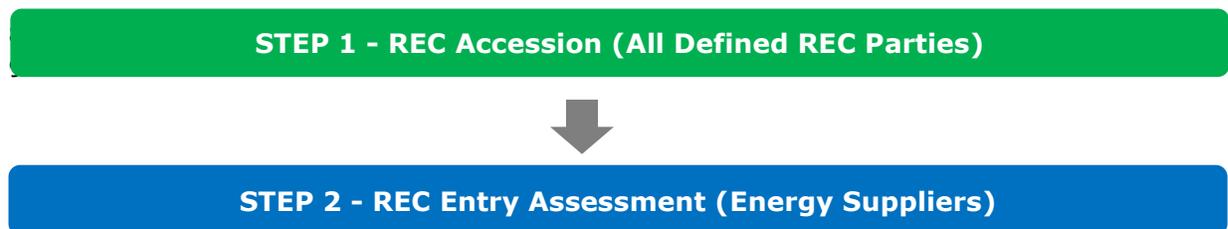
1.4. The concept of Entry Assessment currently exists in relation to some existing codes (see table above for further details). Entry Process Requirements are intended to provide assurance that newly acceded parties can comply with the industry processes and central systems governed under the relevant code. We believe that the REC should contain an Entry Assessment and that this should be developed with the following key features:

- **Dual Fuel:** We believe that, under the REC, the same Entry Assessment Process should apply to all new gas and electricity suppliers. Under a dual fuel REC we do not consider there to be any theoretical rationale for having separate entry process requirements for gas and electricity suppliers.
- **Minimum Threshold Requirement:** Existing market participants will have undergone a robust, programme controlled, testing regime prior to CSS go-live. This will ensure that these participants are ready to interact with the CSS and operate in the new switching arrangements without adversely impacting the consumer switching experience. It is therefore logical to continue to have a minimum entry threshold post go-live; Entry Assessment Requirements will be the mechanism by which new market participants can demonstrate their ability to operate to a set of minimum standards.
- **Supplier only:** For REC v2, we believe that Entry Process Requirements should apply to suppliers only.³⁰ Suppliers will be the only parties that are providing data to the CSS in addition to MPRS and UK Link. Other parties are receiving and synchronising information only. Therefore having supplier only Entry Assessment Requirements reflects the level of risk proportionate to the role of supplier in relation to the success of the switching process.

³⁰ If the scope of the REC is expanded after the programme comes to an end, then extending the requirements to Network Operators could be considered at that point.

- **Proportionate:** The Entry Process should be developed to allow the use of a risk based approach to ensure the requirements are proportionate and do not create unnecessary burden on parties. Risk levels should consider several factors, including: whether a party is already active in the market, number of metering points, volume of energy supplied, or whether a party may be using systems that are already in use by another approved REC party (e.g. Supplier in a box).
- **Coordinated Entry:** We recognise that parties need to complete entry assessments³¹ for more than one code and that some existing code Administrators actively co-ordinate this process to minimise the burden on new entrants, by for example, sharing data. We would like the REC Manager to co-ordinate the REC entry process with other Code Managers; being prepared to lead the co-ordination, or follow as appropriate³².

1.5. Figure 5 below provides an indication of the process steps that could apply. (This is designed to be illustrative only and requires further development with industry).



³¹ This would apply to re-qualification too.

³² For example, depending on which Administrator the party contacted in the first instance.

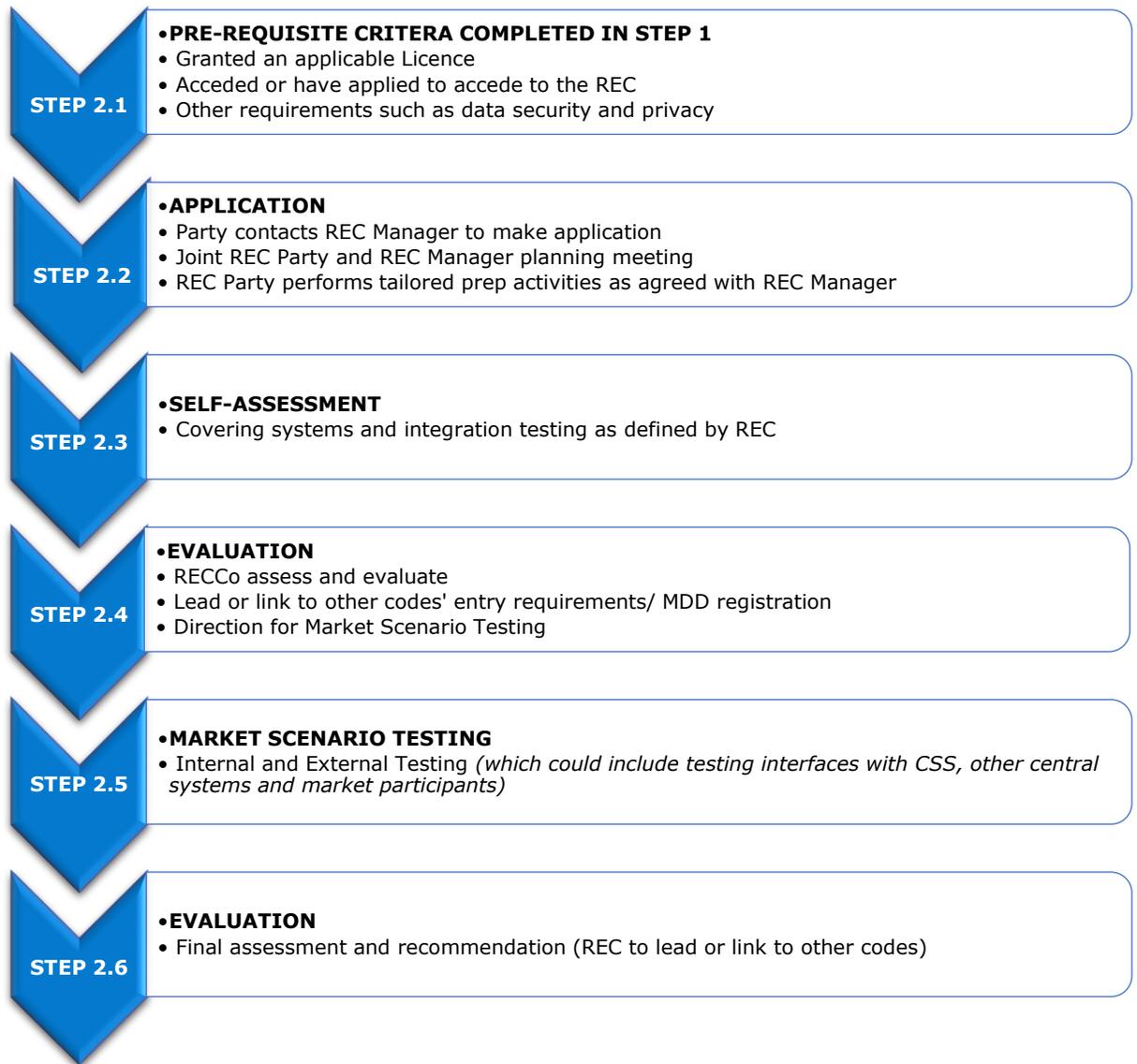


Figure 5: Illustrative Entry Process steps

1.6. The table below gives an overview of the accession and entry requirements that existing codes place upon suppliers.

Code	Accession and/or entry Requirements
SEC	<p>For new Electricity and Gas Suppliers to become Users of the DCC Systems, they must satisfy the following requirements;</p> <ul style="list-style-type: none"> • Acceded to the SEC; (accession) • Obtained a User ID (EUI-64 Compliant IDs) (accession) • Obtained a Credit Cover (accession) • Completed SMKI & Repository Entry Process Tests (entry) • Completed User Entry Process Tests (entry) • Undertaken a User Security Assessment (entry) • Undertaken a Privacy Audit (entry)
MRA	<p>For new Electricity Suppliers to be able to commence the use of MPAS, they must satisfy the following requirements;</p> <ul style="list-style-type: none"> • Acceded, or applied to accede to the MRA; (accession) • Acceded to the Data Transfer Service Agreement (DTSA); and (accession) • Completed the MRA Entry Assessment (entry)
BSC	<p>BSC requires new Electricity Suppliers to have;</p> <ul style="list-style-type: none"> • Acceded to the BSC (a) • Obtained a Credit Cover (a) • Completed the Supplier Volume Allocation (SVA) qualification process; and • Central Volume Allocation (CVA) qualification process. (e) <p>SVA qualification is intended to assure that systems and processes (developed outside of BSC Central Systems control) which may interact with BSC Systems and other participant's systems does not introduce significant risks or issues to settlement.</p>
SPAA	<p>The code does not place any MRA or BSC equivalent entry requirements on Gas Suppliers.</p>

Table 5: Overview of Accession and Entry Requirements from Existing Codes

Appendix 3 – REC proposed contents list

1.1. The contents of this appendix are contained in a separate file at this link:

https://www.ofgem.gov.uk/system/files/docs/2018/06/rec_proposed_content.xlsx

1.2. The document contains a list of potential:

- Content for REC v1: this includes governance as well as transitional requirements;
- Minimum content for REC v2: this has a 'yes' assigned to the REC v2 column;
- REC Technical Documents: it is the responsibility of the CSS Provider to produce these documents for REC v2;
- REC Subsidiary documents: this contains a list of documents that we believe could become REC subsidiary documents for REC v2; and
- Candidates for a future REC or other codes: Captures all of the remaining SPAA and MRA content. We will carry out further work to identify where these remaining provisions should be governed in the longer term, but as they sit outside of scope of the switching programme they won't be part of the v2 consolidation that we'll give effect through the SCR. Note that some of this content is likely to end up in existing codes (eg. DCUSA).

Appendix 4 – Proposed DCC Licence Modifications

- 1.1. All proposed modifications are within Part 3: The Conditions.
- 1.2. Below we have pulled out the relevant sections within Part 3 to which we propose to make changes. Further consequential changes may be identified following this consultation and will be made ahead of the statutory consultation in autumn 2018.
- 1.3. The relevant sections have been reproduced below and all modifications have been tracked. Where we propose:
 - to remove existing text this has been ~~struck through~~; and
 - where we propose to add additional text this is in **red**.
- 1.4. The current DCC licence can be viewed in full at:
<https://epr.ofgem.gov.uk/Content/Documents/Smart%20DCC%20Limited%20-%20Smart%20Meter%20Communication%20Consolidated%20Licence%20Conditions%20-%20Current%20Version.pdf>
- 1.5. Where definitions in the licence refer to the REC the relevant definitions have been included at the end of this appendix.

CHAPTER 1 : CONDITIONS 1 TO 4 Interpretation, contact details, and payments

Condition 1. Definitions for the Conditions of this Licence

Centralised Registration Service has the meaning given to that term in Part C of Condition 15 (Incorporation, **delivery and provision** of the Centralised Registration Service).

Fundamental Registration Service Capability means Relevant Service Capability that is provided in respect of the Centralised Registration Service and procured by the Licensee in accordance with Condition 16. **This represents the new, enduring capabilities upon which the end to end arrangements of the Central Switching Service is based and as directed by the Authority.**

Retail Energy Code Panel means the panel established under the Retail Energy Code that is constituted in such manner and is responsible to such extent and for such activities and other matters (including the delegation of functions to committees of the panel) as may be specified in the Retail Energy Code with respect to the governance and administration of the Retail Energy Code.

Retail Energy Code Parties means persons (excluding the Licensee) who have acceded to the Retail Energy Code on such terms and conditions of accession as are set out in the Retail Energy Code, and includes every holder of an Energy Licence who is required by a condition of that licence to be a party to and comply with the Retail Energy Code.

CHAPTER 4 : CONDITIONS 13 TO 15 Start-up and future development obligations

Condition 15. Incorporation, **delivery and provision** of the Centralised Registration Service

Introduction

15.1 The purpose of this condition is to specify the Interim Centralised Registration Service Objective and the **General Centralised Registration Service Objective** of the Licensee and the Licensee's duties with respect to it.

15.2 The **Interim Centralised Registration Service Objective** sets out the requirements of the Licensee under the Authority's Switching Programme ~~up to and including the point at which the Licensee procures~~ **to procure and provide** Relevant Service Capability to deliver and operate a Centralised Registration Service **up to the point when the Authority directs the commencement of Steady State operations. This covers the Design, Build and Test and Post Implementation Period development phase of the programme.**

15.2A The **General Centralised Registration Service Objective** sets out the requirements of the Licensee under the Authority's Switching Programme to provide **Relevant Service Capability** to operate a Centralised Registration Service through **Steady State operations.**

15.3 The Transition Objective and/or General Objectives of the Licensee shall prevail in the event of a conflict between their provisions and the requirements imposed on the Licensee by the Interim Centralised Registration Service Objective.

Part A: Interim Centralised Registration Service Objective of the Licensee

15.4 Subject to paragraphs 15.6 and 15.7, the Licensee must comply with the Interim Centralised Registration Service Objective by:

- (a) contributing to the achievement of a full and timely design for an efficient, economical and secure Central Switching Service that **will, if when** implemented, provide a platform for fast and reliable switching for all Supply Points in the GB market;
- (b) making all relevant preparations for the procurement **and provision** of Relevant Service Capability to deliver and operate a Centralised Registration Service; ~~and~~

- (c) procuring Relevant Service Capability to deliver and operate a Centralised Registration Service that:
- (i) reflects the design of a Centralised Registration Service which has been designated by the Authority for this purpose (including any amendments to that designated design); ~~and~~
 - (ii) ~~will would, -when~~ executed, ~~in all likelihood,~~ give effect to an efficient, economical and secure Centralised Registration Service that ~~would~~ **will** provide a platform for fast and reliable switching for all Supply Points in the GB market;
 - (iii) **has appropriate provision for the transfer or novation of all Relevant Business Assets in relation to the Centralised Registration Service, including but not limited to, contracts and IPR, to a successor licensee or future operator of the Central Switching Service; and**
 - (iv) **will, when executed, be capable of efficiently and economically adapting to future market requirements.**
- (d) **provision of the appropriate Relevant Service Capability of the Centralised Registration Service to meet the requirements set out within the Retail Energy Code during Design, Build and Test and Post Implementation Period of the system including by:**
- (i) **establishment and maintenance of a Central Switching Service design baseline and design authority function in accordance with the requirements in the Retail Energy Code;**
 - (ii) **proactive data stewardship for the Retail Energy Location Address that will lead to a very high level of continually improving accuracy for registerable meter points that meets or exceeds the standards set out within the Retail Energy Code; and**
 - (iii) **provision, where required, of a secure and robust communications network that meets the requirements of the programme set out within the Communication Network Requirements document designated by the Authority.**

15.5 For the purposes of paragraph 15.4(b), the Interim Centralised Registration Service Objective includes, but is not limited to, a duty to contribute to the development and documentation of the design of the Centralised Registration Service.

Part AA: General Centralised Registration Service Objective of the Licensee

15.5AA Subject to paragraphs 15.7 and 15.8 the Licensee must comply with the General Centralised Registration Service Objective by:

- (a) provision and management of a reliable, efficient, economic and secure Centralised Registration Service that will improve consumers' experience of switching;
- (b) provision of the Relevant Service Capability of the Centralised Registration Service during Steady State operations with:
 - (i) maintenance of a Central Switching Service design baseline and design authority function in accordance with the requirements in the Retail Energy Code;
 - (ii) provision of a prompt and constructive approach to support change management that meets the service level agreements set out within the Retail Energy Code
 - (iii) Provision of systems and services that can economically and efficiently adapt to meet future market requirements;
 - (iv) proactive data stewardship for the Retail Energy Location Address that will lead to a very high level of continually improving accuracy for registerable meter points that meets or exceeds the standards set out within the Retail Energy Code; and
 - (v) provision of a secure and robust communications network that meets the requirements set out within the Communication Network Requirements document designated by the Authority and subject to change from time to time by the Authority or as part of the Retail Energy Code; and
 - (vi) appropriate provision for the transfer or novation of all Relevant Business Assets in relation to the Centralised Registration Service, including but not limited to, contracts and IPR, to a Successor Licensee or future operator of the Central Switching Service.

Part B: Requirement in respect of Authority direction

15.6 The Licensee must comply with any direction issued to it by the Authority for the purposes of meeting the Interim and General Centralised Registration Service Objective in respect of the Licensee's obligations in this condition.

15.7 The Authority's power under paragraph 15.6 includes a power to direct that any or all of paragraphs 15.4 to 15.5 shall cease to have effect in this licence on such date and for such period as the Authority may specify.

Part C: Interpretation

15.8 For the purposes of this condition: Centralised Registration Service means a services provided by DCC which reflects the design designated by the authority and includes, but is not limited to, the provision of the Central Switching Service, Systems Integrator and Core Systems Assurance functions and is pursuant to the Retail Energy Code which:

- (1) includes (but is not limited to) the provision of services equivalent to those which were, [on date prior to the Retail Energy Code coming into effect] included within:
 - (a) such services relating to the supply of gas under the 1986 Act that fall within:
 - (i) the supply point information service provided under standard condition 31 of the Gas Transporter Licence as relate directly to (i) the provision of supply point information and (ii) the maintenance of a register of technical and other data required by Gas Shippers and Gas Suppliers for change of supplier purposes; and
 - (ii) the supply point administration service provided under or pursuant to the Supply Point Administration Agreement.
 - (b) such services relating to the supply of electricity under the 1989 Act that fall within the metering point administration services as defined in standard condition 18 of the Electricity Distribution Licence and that are provided under or pursuant to the Master Registration Agreement.
 - (c) where required, arrangements for the secure communication and exchange of data between parties and the Centralised Registration Service.
- (2) supports any further or alternative arrangements as may be identified as being required of the Centralised Registration Service by the Authority for the purposes of the Switching Programme.

Central Switching Service has the meaning given to it within the Retail Energy Code

Core Systems Assurance has the meaning given to it within the Retail Energy Code

Design, Built and Test has the meaning given to it within the Retail Energy Code

Domestic Gas Supplier means a Gas Supplier in whose supply licence section B of the standard conditions incorporated into such a licence has effect

Gas Shipper and Gas Supplier mean, respectively, a person who holds a licence under section 7A(2) of the 1986 Act and a person who holds a licence under section 7A(1) of that Act

General Centralised Registration Service Objective has the meaning given to that term in Part AA of this condition

Interim Centralised Registration Service Objective has the meaning given to that term in Part A of this condition

Post Implementation Period has the meaning given to it within the Retail Energy Code

Retail Energy Code means [the document designated by the Authority pursuant to standard condition [X] of gas supply licence and [X] of the electricity supply licence]

Retail Energy Location Address has the meaning given to it within the Retail Energy Code

Steady State operations represents the period directly following the Steady State Commencement Date and until such point that the Authority directs the end of Steady State operations

Steady State Commencement Date has the meaning given to it within the Retail Energy Code. It represents the designation by the Authority that all exit criteria, as defined within the designated programme documents, have been met

Supply Point means, for the purpose of this licence condition, Meter Points as defined in the Master Registration Agreement, Supply Meter Points as defined in the Uniform Network Code and any points where a supply of gas or electricity is taken, or where electricity is exported, as defined within the scope of the Switching Programme

Switching Programme means the Authority's programme to amend the services listed in part 1(a), (b) and (c) of the definition of the Centralised Registration Service, for the purpose of providing fast and reliable switching

Systems Integrator means the body carrying the functions including, but not limited to Systems Integration Testing

Systems Integration Testing has the meaning given to it within the Retail Energy Code

CHAPTER 6 : CONDITIONS 21 TO 23 Arrangements for Core Industry Documents

Condition 21. Roles in relation to Core Industry Documents

Part F: Compliance duties relating to the Retail Energy Code

21.12 The Licensee must be a party to and comply with the Retail Energy Code

Part G: Duty to cooperate

21.13 The licensee will cooperate, as necessary, with the Authority and/or any person(s) appointed by the Authority or appointed pursuant to a direction of the Authority, to undertake any planning, project assurance or coordination/systems integration in order to give full effect to the conclusions of a "Significant Code Project". This cooperation includes but is not limited to:

- a) the sharing of such information as reasonable, and constructive participation in industry engagement in order to undertake appropriate planning of changes to IT systems or industry standard operational processes system changes pursuant to the conclusions of a SCR;
- b) the provision of such data as may be identified and reasonably requested in order to undertake testing and/or the population of any new central systems;
- c) the preparation and cleansing of such data as may reasonably be requested in order to facilitate live operation of the new central system;
- d) the provision of test scripts and results of any testing as may be requested by any person appointed to assure the success of any testing;
- e) taking all reasonable steps to:
 - i) meet key programme milestones for the completion of any action(s) assigned to the licensee;
 - ii) adhere to any remedial plan put in place to address any issues, delays or slippage that may impact the licensee's ability to meet programme milestones, to the extent that failure to do so may jeopardise the successful and timely implementation of the programme; and
 - iii) promptly escalate and/or resolve any disputes that if unresolved may jeopardise the fulfilment of these obligations.

"Significant Code Project" means a significant code review or such other project as the Authority may designate.

CHAPTER 9 : CONDITIONS 35 TO 41 Price Control Conditions of this Licence

Condition 35. Definitions for the Price Control Conditions

Part B: The Chapter 9 Particular Definitions

Centralised Registration Service External Contract Gain Share: means the component of the Allowed Revenue for Centralised Registration Service (Condition 15) that is determined in accordance with the provisions of Condition 39 (Determination of External Contract Gain Share) so as to secure the effect set out in Part A of that condition and in accordance to the provision set out with in the Retail Energy Code.

Centralised Registration Service Pass-Through Costs: means in relation to each Regulatory Year the sum of the amounts that are or that will be directed by the Authority as Centralised Registration Service Pass-Through Costs. In the absence of a direction, this shall take the value of zero.

Centralised Registration Service Value Added Service (VAS) Contribution: means the component of the Allowed Revenue of the Centralised Registration Service (Condition 15) that is determined in accordance with the provisions of Condition 40 (Determination of the VAS Contribution) so as to secure the effect set out in Part A of that condition.

Part D: Guide to abbreviated price control terms

35.8 Most of the defined terms in the Chapter 9 Particular Definitions set out above appear in formulas embedded in the Price Control Conditions in the following abbreviated forms:

Allowed Revenue	AR
Average Specified Rate	ASR
Baseline Margin	BM
Baseline Margin Implementation Performance Adjustment	BMIPA
Baseline Margin Implementation Total	BMIT
Baseline Margin Operational Performance Adjustment	BMOPA
Baseline Margin Performance Adjustment	BMPA
Baseline Margin Project Performance Adjustment	BMPPA
Centralised Registration Service Cost Adjustment	CRSCA
Centralised Registration Service External Cost	CRSEC
Centralised Registration Service External Contract Gain Share	CRSECGS
Centralised Registration Service Internal Cost	CRSIC

Centralised Registration Service Pass-Through Costs	CRSPTC
Centralised Registration Service Performance Adjustment	CRSPA
Centralised Registration Service Pre-Agreed Cost	CRSPC
Centralised Registration Service Revenue	CRSR
Centralised Registration Service Value Added Services Contribution	CRSVASC
External Contract Gain Share	ECGS
External Costs	EC
Internal Costs	IC
Pass-Through Costs	PTC
Project Activity Amount	PAA
Project Activity Performance Factor	PF
Project Activity Weighting Factor	WF
Project Baseline Margin	PBM
Project Performance Adjustment	PPA
Regulated Revenue	RR
Value Added Service Contribution	VASC
Condition 36. Determination of the Licensee's Allowed Revenue	
Part D: Centralised Registration Service Revenue term	
36.9 For the purposes of the Principal Formula, the total amount of the Centralised Registration Service Revenue (CRSR) will be calculated for Regulatory Year t in accordance with the following Formula:	
$CRSR_t = CRSEC_t + CRSIC_t + CRSPC_t + CRSCA_t + CRSPA_t + CRSPTC_t + CRSECGS_t + CRSVASC_t$	
36.10 In the formula above:	
<p>CRSEC_t means the actual amount of the Licensee's Centralised Registration Service External Costs, as calculated for Regulatory Year t by the Licensee, except to such extent (if any) as may be otherwise directed by the Authority acting under Part B of Condition 37.</p>	
<p>CRSIC_t means the actual amount of the Licensee's Centralised Registration Service Internal Costs, as calculated for Regulatory Year t by the Licensee, except to such extent (if any) as may be otherwise directed by the Authority acting under Part B of Condition 37.</p>	
<p>CRSPC_t (a) means in relation to each Regulatory Year Centralised Registration Service Pre-Agreed Cost</p>	

(b) the value of the $CRSPC_t$ term will be zero unless otherwise directed by the Authority, following consultation with the Licensee, the SEC Panel, ~~and SEC Parties~~, **Retail Energy Code Panel and Retail Energy Code Parties as appropriate.**

CRSCA_t (a) means in relation to each Regulatory Year a cost adjustment to the preagreed cost

(b) the value of the term $CRSCA_t$ will be zero unless directed by the Authority, as set out in (c)

(c) $CRSCA_t$ will be determined in accordance with provisions developed and populated by the Authority in a direction to be given to the Licensee following consultation with the Licensee, the SEC Panel, ~~and SEC Parties~~, **Retail Energy Code Panel and Retail Energy Code Parties as appropriate.**

CRSPTC_t (a) means in relation to each Regulatory Year Centralised Registration Service Pass-Through Cost

(b) the value of the $CRSPC_t$ term will be zero unless otherwise directed by the Authority, following consultation with the Licensee, SEC Panel, SEC Parties, Retail Energy Code Panel and Retail Energy Code Parties

CRSECGS_t (a) means in relation to each Regulatory Year Centralised Registration Service External Contract Gain Share

(b) the value of the $CRSPC_t$ term will be zero unless otherwise directed by the Authority, following consultation with the Licensee, SEC Panel, SEC Parties, Retail Energy Code Panel and Retail Energy Code Parties.

CRSVASC_t (a) means in relation to each Regulatory Year Centralised Registration Service External Value Added Service Contribution

(b) the value of the $CRSPC_t$ term will be zero unless otherwise directed by the Authority, following consultation with the Licensee, SEC Panel, SEC Parties, Retail Energy Code Panel and Retail Energy Code Parties.

Further consequential changes

Schedule 5. Matters associated with the grant of this Licence

Annex 11: Registration Interface-related documents

11A.1 The Licensee will, by not later than the date on which Implementation Milestone 5 is intended to be reached under Schedule 3 to this Licence, or by not later than such variation of that date as may be permitted pursuant to paragraph 8 of Condition 38, and in consultation with SEC Parties and registration data providers (including such of the Central Registration Bodies mentioned in Condition 15 of this Licence (Incorporation, **delivery and provision of the Centralised Registration Service of Energy Registration Services**) as are relevant for the purpose), develop in accordance with the Procedure for Document Development:

- (a) a Registration Interface Specification; and
 (b) a Registration Code of Connection.

REC definitions

The definitions provided within the Retail Energy Code are placed within the Interpretation Schedule. The relevant definitions have been pulled out and summarised below for reference.

Term	Definition
Address Service	means the component of the Central Switching Service which manages a list of Location addresses and performs address matching, as further described in Address Management Schedule.
Central Switching Service	means the services provided pursuant to this Code.
Core Systems Assurance Provider	means the Systems assurance function [provided or procured by the DCC].
Design Build and Test Phase	means the period commencing on [] and ending on the Go-Live Date.
Post Implementation Period	means the period commencing on the Go-Live Date and ending on the Steady State Commencement Date.
Retail Energy Location Address	means the address (or other spatial reference) of each Retail Energy Location, as created and maintained by the CSS Provider. For RMPs in Wales, references to the Retail Energy Location Address include the REL (W) Address, unless the context requires otherwise.
Steady State Commencement Date	means the time and date designated by the Authority when all exit criteria have been met and handover to steady state governance has taken place.
Systems Integration Testing	means the testing described in Paragraph 5.3 of the Transition Schedule.

Appendix 5 – Proposed gas and electricity supply licence modifications

1.1. In establishing the REC we have sought to create minimum disruption to the existing licence conditions, at least initially. We recognise that with the anticipated consolidation of code provisions within a single dual-fuel code there is also opportunity to simplify the standard conditions of relevant licensees. For instance, subject to the eventual scope of the REC we may be able to remove Gas Supply licence condition 30: Supply Point Administration Agreement in its entirety. However, those codes will remain an important part of the industry governance at least until the new switching arrangements go live. At this stage we therefore seek to introduce provisions that will sit comfortably alongside existing licence obligations, not to replace or duplicate them in any way.

1.2. In keeping with aim, we have also sought to use text that licensees are familiar with, which creates minimal addition burden of compliance. We acknowledge that in some places this may include areas of text that may subsequently be duplicated within the version of the REC that we expect to designate later this year. For instance we consider that much of the drafting relating to the SCR process could be captured in the REC rather than the proposed new licence condition, though it is set out as part of these proposals for completeness. **We would welcome respondents' views on whether this, or other areas of text, could be simplified in terms of our current proposals and, in due course, elsewhere within the licence.**

1.3. Given that the REC will be a dual-fuel code with equivalent effect upon both gas and electricity suppliers and other licensees, we would ideally have used identical text and placed it within the same condition of both the gas and electricity supply licences. However, there is not currently an available condition in a suitable part of both licences. **We therefore propose that the REC provisions be inserted through modification of the currently unused Standard Condition 11 in the Gas Supply Licence, and inserted as new Standard Condition 11B of the Electricity Supply Licence, though we are open to views on whether an alternative may be more appropriate.**

1.4. We had also been hoping to minimise the extent of the new licence requirements by incorporating by reference existing text with the licence, so for instance we would not have to repeat each of the significant code review provisions. However, as these provisions are not currently set out in the electricity supply licence as they are under Standard Condition 30 in the gas licence, we consider that it would, at least for the time being, be appropriate to set these out in full as part of the REC provisions. As suggested above, we may revisit this decision if we feel that the SCR process is adequately captured in the REC and as such does not need to be explicitly provided for in licence. For instance, we would note that whilst the Smart Energy Code is

subject to the SCR provisions, these are set out within the Smart Energy Code itself, not as part of the Smart Meter Communication (DCC) licence.

1.5. Where we propose to re-use existing defined terms, we will seek avoid some duplication by moving those defined terms to Standard Licence Condition 1: Definitions for Standard Conditions.

1.6. Finally, we also propose to include the generic duty to cooperate with a significant Ofgem-led programme, as set out in Chapter 2. We would note that when we previously shared draft text for this obligation with the Regulatory Design User Group of the switching programme, and various other stakeholder meetings, the text at that time referred specifically to the obligation applying in respect of a SCR. We remain of the view that this duty should only apply in respect of significant programmes, but consider that this should also reasonably include any that stem from a statutory requirement. We have therefore extended the scope of the proposed obligation so that these important programmes are not omitted, and propose a new definition of *significant code project*, that would appropriately capture change required of statute as well as those originated from an SCR.

1.7. As in Appendix 4, we have sought to clarify where we propose to insert new text into a particular condition by marking it in red. With respect to the proposed REC standard condition 11/11B, any text in black is a direct replica of that currently in use in Gas Supply Standard Condition 30: SPAA.

Proposed Gas and Electricity Supply standard licence conditions

Condition 1: Definitions for standard conditions

Add:

“Code of Practice”

means the Code Administration Code of Practice approved by the Authority and:

(a) developed and maintained by the code administrators in existence from time to time;

(b) amended subject to the Authority’s approval from time to time; and

(c) re-published from time to time.

“Directions”

in the context of Standard Conditions 30.10(a) and [REC equivalent] , means direction(s) issued following publication of significant code review conclusions which will contain:

(a) instructions to the licensee to make

	<p>(and not withdraw, without the Authority's prior consent) a modification proposal;</p> <p>(b) the timetable for the licensee to comply with the Authority's direction(s); and</p> <p>(c) the Authority's reasons for its direction(s).</p>
"significant code review"	<p>means a review of one or more matters which the Authority considers likely to:</p> <p>(a) relate to the SPAA [and/or REC] (either on its own or in conjunction with any other industry code(s));</p> <p>(b) be of particular significance in relation to its principal objective and/or general duties (under section 4AA of the Act), statutory functions and/or relevant obligations arising under EU law; and</p> <p>concerning which the Authority has issued a notice to the SPAA and/or REC parties (among others, as appropriate) stating:</p> <p>(i) that the review will constitute a significant code review;</p> <p>(ii) the start date of the significant code review; and</p> <p>(iii) the matters that will fall within the scope of the review.</p>
"significant code review phase"	<p>means the period</p> <p>(a) commencing either:</p> <p>(i) on the start date of a significant code review as stated by the Authority; or,</p> <p>(ii) on the date the Authority makes a direction under paragraph 30.10D [or REC equivalent] (a "backstop direction");</p> <p>and</p> <p>(b) ending in one of the following ways:</p> <p>i) on the date on which the Authority issues a statement under sub-paragraph 30.10(b) [or REC equivalent] that no</p>

directions will be issued in relation to the SPAA [or REC]; or
(ii) if no statement is made under sub-paragraph 30.10(b) or (bb) [or REC equivalent], on the date on which the licensee has made a modification proposal in accordance with directions issued by the Authority under sub-paragraph 30.10(a) [or REC equivalent], or the Authority makes a modification proposal under sub-paragraph 30.10(ba) [or REC equivalent]; or
(iii) immediately under sub-paragraph 30.10(c) [or REC equivalent] if neither a statement, nor a modification proposal, nor directions are made by the Authority within (and including) twenty eight (28) days from the Authority's publication of its significant code review conclusions; or
(iv) if a statement has been made under sub-paragraph 30.10(bb) [or REC equivalent] or a direction has been made under paragraph 30.10D [or REC equivalent] (a "backstop direction"), on the date specified in accordance with paragraph 30.10A [or REC equivalent].

"Small participant"

means

(a) a supplier, gas transporter, or new entrant to the gas market in Great Britain that can demonstrate to the code administrator that it is resource-constrained and, therefore, in particular need of assistance;

(b) any other participant or class of participant that the code administrator considers to be in particular need of assistance; and

(c) a participant or class of participant that the Authority has notified the code administrator as being in particular need of assistance.

Condition 11/11B: Retail Energy Code

[11/11B].1 The licensee must be a party to, comply with and maintain the **Retail Energy Code** (for this condition only, the "REC").

[11/11B].2 The licensee must take all reasonable steps to secure and implement, and must not take any unreasonable steps to prevent or delay, any modifications to Industry Documents which are necessary to give full and timely effect to a modification of the REC.

[11/11B].3 Paragraph [11/11B].2 is without prejudice to:

- (a) any right of appeal that the licensee may have in relation to a decision made by the Authority under Industry Documents; and
- (b) any right of approval, veto or direction that the Authority or the Secretary of State may have in relation to changes to Industry Documents.

[11/11B].4 The licensee must take all reasonable steps to secure and implement changes to its systems, procedures and processes which are necessary to give full, timely and practical effect to any modification of the REC.

[11/11B].5 The licensee must take all reasonable steps to ensure that the REC remains an agreement which:

- (a) is designed to facilitate the achievement of the relevant objectives set out in paragraph [11/11B].6; and
- (b) includes the matters set out in paragraph [11/11B].7.

[11/11B].6 The relevant objectives referred to in sub-paragraph [11/11B].5(a) are:

- a) to ensure the REC operates and evolves in a manner that facilitates the achievement of its mission statement;*
- b) to ensure customers interests and data is protected in the operation of the REC; and,*
- c) to drive continuous improvements and efficiencies in the operation of the REC and the central systems and communication infrastructures it governs.*

[11/11B].7 The matters referred to in sub-paragraph [11/11B].5(b) are:

- (a) provision for enabling the REC to be modified from time to time so as to better facilitate the achievement of the relevant objectives set out in paragraph [11/11B].6;
- (b) provision for enabling parties to the REC, and such other persons as may be specified in the code, to appeal against a decision to implement or reject any proposed modification of it, where that modification does not require the Authority's approval, to the Authority for determination;
- (c) for the REC, and all ancillary documents and products to be published on a free to access website; and*
- (d) where an appeal has been raised in respect of a modification proposal in accordance with sub-paragraph (b), provision for that modification proposal

to be treated in accordance with any decision and/or direction of the Authority following that appeal.

[11/11B].8 The REC must provide for:

(a) a panel body, as specified in the REC (the "panel") whose functions shall include the matters required by this condition and as set out in the REC; and

(b) a person or body, as specified in the REC, to perform the role of code manager (the "REC manager"). In addition to any powers, duties or functions set out in the REC, the code manager shall:

- (i) together with other code managers and/or code administrators, publish, review and (where appropriate) amend from time to time the Code of Practice approved by the Authority (any amendments to the Code of Practice are to be approved by the Authority);
- (ii) facilitate the procedures for making a modification to the REC;
- (iii) have regard to, and in particular (to the extent relevant) be consistent with the principles contained in, the Code of Practice; and
- (iv) provide assistance, insofar as is reasonably practicable and on reasonable request, to parties (including, in particular, small participants) and, to the extent relevant, consumer representatives that request the code manager's assistance in relation to the REC including, but not limited to, assistance with:

- drafting a modification proposal;
- understanding the operation of the REC;
- their involvement in, and representation during, the modification procedure processes (including, but not limited to, code panel and/or workgroup meetings);
- accessing information relating to modification proposals and/or modifications.

and

(c) a "performance assurance board" to conduct and administer activities identified within the REC and being appropriate to provide assurance that all participants in the REC arrangements, particularly those relating to switching activities, are suitably qualified and that the relevant standards are maintained.

[11/11B].9 The modification procedures referred to in sub-paragraph [11/11B].7(a) must provide:

(a) for a modification report to be prepared in such manner and with all such contents as specified in the REC, which shall include an assessment of the extent to which the proposed modification would better facilitate achieving the relevant objectives and a detailed explanation of the reasons for that assessment;

(b) where the proposed modification requires Authority approval in accordance with the provisions of the REC, for the revision and resubmission of the modification report upon, and in accordance with, a direction issued to the panel by the Authority

where the Authority determines that it cannot properly form an opinion on the approval of the modification proposal;

(c) without prejudice to paragraph [11/11B].10B, that proposals for the modification of the REC falling within the scope of a significant code review may not be made during the significant code review phase, except:

- a. where the Authority determines that the modification proposal may be made, having taken into account (among other things) the urgency of the subject matter of the proposal; or
- b. at the direction of, or by, the Authority;

(d) that where a modification proposal is made during a significant code review phase the panel shall:

- i. unless exempted by the Authority, notify the Authority as soon as practicable of:
 1. any representations received in relation to the relevance of the significant code review; and
 2. the panel's assessment of whether the proposal falls within the scope of the significant code review and its reasons for that assessment; and
- ii. if the Authority so directs, not proceed with the modification proposal until the significant code review phase has ended;

(e) for proposals for the modification of the REC to be made by the licensee or the Authority (in relation only to modifications which fall within the scope of paragraph [11/11B].10E);

(f) for modification proposals made by the Authority and the licensee in accordance with paragraphs [11/11B].9(e) and [11/11B].9(g)(i) respectively which fall within the scope of paragraph [11/11B].10E:

- (i) to be accepted into the REC modification procedures by the REC Manager and/or REC Panel;
- (ii) where they are raised by the licensee, not to be withdrawn without the Authority's prior consent; and
- (iii) to proceed in accordance with paragraph [11/11B].9(g);

(g) For compliance by the licensee and (where applicable) the panel with any direction(s) issued by the Authority under this paragraph setting and/or amending a timetable (in relation to a modification proposal which falls within the scope of paragraph [11/11B].10E) for:

- (i) the licensee to raise a modification proposal(s); and/or
- (ii) the completion of each of the procedural steps outlined in the direction, to the extent that they are relevant; and/or
- (iii) the implementation of a modification.

[11/11B].10 If, within twenty eight (28) days after the Authority has published its significant code review conclusions:

(a) the Authority issues directions to the licensee, the licensee shall comply with those directions and shall treat the significant code review phase as ended;

(b) the Authority issues to the licensee a statement that no directions under sub-paragraph (a) will be issued in relation to the REC, the licensee shall treat the significant code review phase as ended;

(ba) the Authority raises a modification proposal in accordance with paragraph [11/11B].9(e), the licensee shall treat the significant code review phase as ended;

(bb) the Authority issues a statement that it will continue work on the significant code review, the licensee shall treat the significant code review phase as continuing until it is brought to an end in accordance with paragraph [11/11B].10A;

(c) neither directions under sub-paragraph (a) nor a statement under sub-paragraph (b) or (bb) have been issued, nor a modification proposal under sub-paragraph (ba) has been made, the significant code review phase will be deemed to have ended.

The Authority's published conclusions and directions to the licensee will not fetter any voting rights of SPAA parties or members of the panel, or the procedures informing the modification report described at sub-paragraph [11/11B].9(a).

[11/11B].10A Where the Authority issues a statement under sub-paragraph [11/11B].10(bb) and/or a direction in accordance with paragraph [11/11B].10D, the significant code review phase will be deemed to have ended when:

(a) the Authority issues a statement that the significant code review phase has ended;

(b) one of the circumstances in sub-paragraphs [11/11B].10(a) or (ba) occurs (irrespective of whether such circumstance occurs within twenty-eight (28) days after the Authority has published its significant code review conclusions); or

(c) the Authority makes a decision consenting, or otherwise, to the modification of the SPAA following the submission of the modification report prepared pursuant to sub-paragraph [11/11B].10C(a).

[11/11B].10B Where the Authority issues a statement in accordance with sub-paragraph [11/11B].10(bb) and/or a direction in accordance with paragraph [11/11B].10D, the Authority may submit a modification proposal for a modification falling within the scope of sub-paragraph [11/11B].10E(b) to the panel.

[11/11B].10C The modification procedures must provide, where the Authority submits a significant code review modification proposal to the panel in accordance with paragraph [11/11B].10B, for compliance with the modification procedures set out in sub-paragraphs [11/11B].9(a) and (b).

The Authority's published conclusions and significant code review modification proposal will not fetter any voting rights of SPAA parties or members of the panel, or

the procedures informing the modification report described at sub-paragraph [11/11B].9(a).

[11/11B].10D The modification procedures must provide for modification proposals raised in accordance with sub-paragraph [11/11B].10(a) or [11/11B].9(g), or by the Authority under sub-paragraph [11/11B].10(ba) and which fall within the scope of paragraph [11/11B].10E(b), the Authority may issue a direction (a “backstop direction”), which requires such proposal(s) and any alternatives to be withdrawn and which causes the significant code review phase to recommence.

[11/11B].10E Modification proposals fall within the scope of this paragraph where:

- (a) the Authority reasonably considers the modifications are necessary to comply with, or implement, the Regulation and/or any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators; and/or
- (b) the modification proposal is in respect of a significant code review.

[11/11B].11 Eligible grounds for appeal under the provisions referred to in sub-paragraph [11/11B].7(b) shall be that, in the opinion of the Authority:

(a) (i) the appealing party is likely to be unfairly prejudiced by the implementation or non-implementation of that modification proposal; or

(ii) the appeal is on the grounds that:

1. in the case of implementation, the modification proposal may not better facilitate the achievement of at least one of the relevant objectives; or

2. in the case of non-implementation, the modification may better facilitate the achievement of at least one of the relevant objectives; and

(b) the appeal is not brought for reasons that are trivial or vexatious, nor does the appeal have no reasonable prospect of success.

[11/11B].12 The procedures for the modification of the REC must provide that recommendations or decisions for or against the implementation of a modification proposal shall be made with regard to whether that modification would, as compared with the existing provisions of the REC, better facilitate the achievement of the relevant objectives.

[11/11B].13 The procedures for the modification of the REC must be consistent with the principles set out in the Code of Practice, to the extent that they are relevant.

Duty to cooperate

[11/11B].14 The licensee will cooperate, as necessary, with the Authority and/or any person(s) appointed by the Authority or appointed pursuant to a Direction of the Authority, to undertake any planning, project assurance and/or coordination/systems integration in order to give full effect to the conclusions of a [“**significant code project**”]. Such **cooperation** may include but not be limited to:

- a) the sharing of such information as reasonable, and constructive participation in industry engagement in order to undertake appropriate planning of changes to IT systems or industry standard operational processes system changes pursuant to the conclusions of a SCR;
- b) the **provision of such data** as may be identified and reasonably requested in order to undertake testing and/or the population of any new central systems;
- c) the **preparation and cleansing of such data** as may reasonably be requested in order to facilitate live operation of the new central system;
- d) the provision of test scripts and results of any **testing** as may be requested by any person appointed to assure the success of any testing;
- e) reasonable endeavours to:
 - i) meet key programme milestones for the completion of any action(s) assigned to the licensee;
 - ii) adhere to any remedial plan put in place to address any issues, delays or slippage that may impact the licensee's ability to meet programme milestones, to the extent that failure to do so may jeopardise the successful and timely implementation of the programme;
 - iii) identify any dependencies that the licensee may have upon agents or other third-parties and secure the necessary support from such parties; and
 - iv) promptly escalate and/or resolve any disputes that if unresolved may jeopardise the fulfilment of these obligations.

"Significant Code Project" means a significant code review or such other project as Ofgem may direct.

Appendix 6 – Proposed modifications to the gas transporters’ and electricity distributors’ licence

1.1. At this stage the modifications to the gas transporters’ and electricity distributors licences’ are limited to requiring them to accede to and comply with the REC, and to the general duty to cooperate we are proposing to insert into all licences. Further modifications may be appropriate to reflect the final arrangements, including roles and responsibilities with respect to the gas and electricity registration systems that will remain the responsibility of the gas transporters and electricity distributors respectively.

1.2. As the text of the duty to cooperate is intended to be identical for all licences and is set out in full in Chapter 2, we have not provided marked up text for each of the licences we propose to modify in respect of this obligation.

Gas Transporters’ standard licence conditions

Modify:

Condition 14: The Supply Point Administration Agreement

1. The licensee shall become a party to and thereafter comply with those provisions of the Supply Point Administration Agreement relevant to it.

To read:

Condition 14: **Compliance with Core Industry Documents**

1. The licensee shall become a party to and thereafter comply with those provisions of:
 - a. the Supply Point Administration Agreement; and,
 - b. the Retail Energy Code

that are relevant to it.

Electricity Distribution standard licence conditions

Modify:

Condition 20: Compliance with core industry documents

To read:

“Other code and agreements

20.3 The licensee must be a party to and comply with:

- (a) the Balancing and Settlement Code;
- (b) the Connection and Use of System Code;
- (c) the Distribution Connection and Use of System Agreement; ~~and~~
- (d) the Master Registration Agreement; ~~and~~,
- (e) the Retail Energy Code.

from the earlier of the date on which it offers to distribute electricity, ~~or~~ the date on which it begins to distribute electricity in Great Britain, ~~or the date on which that code takes effect, as the case may be.~~

and:

Interpretation

20.10 In this condition:

The licensee’s obligation to comply with a Core Industry Document or the Fuel Security Code is an obligation to comply with the provisions of that document so far as they are applicable to the licensee.

Core Industry Document means any and all of the following:

- (a) the Balancing and Settlement Code,
- (b) the Connection and Use of System Code,
- (c) the Distribution Code,
- (d) the Distribution Connection and Use of System Agreement,
- (e) the Grid Code,
- (f) the Master Registration Agreement,
- (g) the Revenue Protection Code,
- (h) the System Operator Transmission Owner Code, ~~and~~
- (i) the Retail Energy Code, ~~and~~
- (h) any other document designated by the Authority for the purposes of this condition following consultation with the licensee.

Appendix 7 – REC main body and Schedules

1.1. We have published the draft legal text of the REC main body and each of the schedules that have been prepared to date, as subsidiary documents to this consultation. Those subsidiary documents are as follows:

- REC main body;
- Schedule – Interpretations;
- Schedule – Transitional Requirements
- Schedule – Registration Services;
- Schedule – Address Management;
- Schedule – Data Management.

1.2. The documents are all available in pdf format at:
<https://www.ofgem.gov.uk/publications-and-updates/switching-programme-proposed-modifications-regulation-and-governance>

1.3. We are additionally happy to provide access to the documents through file-sharing, though this would be available to a limited number of accounts on a strictly first come first served basis. If you would like access via file-sharing, please use the contact details provided in Appendix 1.