

Consultation

Supplier agent functions – proposed approach

Publication date:	17 September 2018	Contact:	Anna Stacey, Head of Settlement Reform
		Team:	Settlement Reform
Response deadline:	12 November 2018	Tel:	020 7901 7000
		Email:	half-hourlysettlement@ofgem.gov.uk

Supplier agents carry out certain functions related to settlement on behalf of suppliers (or, in some cases, customers). As part of our work on market-wide settlement reform we are considering whether or not to centralise functions currently performed by supplier agents.

We do not think we should centralise agent functions as part of our work on market-wide settlement reform. We would like views on this proposal from people with an interest in electricity settlement. We particularly welcome responses from electricity suppliers, supplier agents and industry code bodies. We would also welcome responses from other stakeholders and the public.

This document outlines the scope and purpose of the consultation, and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response. (See chapter one for more information on confidential responses).

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Executive summary

Under the Balancing and Settlement Code (BSC), electricity suppliers appoint supplier agents to carry out certain functions related to settlement. As part of our work on market-wide settlement reform through half-hourly settlement (HHS), we have been considering whether or not to centralise functions currently performed by supplier agents.

The aim of our work on market-wide settlement reform is to facilitate a smarter, more flexible energy system and to empower consumers to take an active role in the energy system transition as the sector decarbonises.

Analysis

We previously published a working paper on agent functions in March 2018. This considered whether or not a central agent could have merit in principle, using six analytical areas. We now provide additional information on each of these areas, based on feedback from stakeholders and further analysis.

In summary, we do not consider that a central agent is required to improve data quality, reduce issues when data is transferred between parties (hand-offs), provide third parties with access to data for value-added services, or improve the implementation of industry changes. There may be some economies of scale available from having a central agent, but these are likely to be small. However, we do not see differentiation in settlement performance as a particular reason to maintain a decentralised supplier agent model.

Our proposed position

Our proposed position is that our work on market-wide settlement reform should not include centralisation of agent functions. (We note that any fundamental changes to the supply market as a result of our work on future supply market arrangements may have implications for a number of parties, including suppliers and supplier agents).

We think that there may well be a case for future models where data is not aggregated for submission into central settlement systems. The data aggregation role may no longer be required in its current form.

We have considered our proposed position against the assessment principles we set out in our March 2018 working paper. (These were: carefully considering alignment with our regulatory stances, particularly on competition and innovation, delivering settlement functions efficiently, supporting the realisation of consumer benefits in a future market, limiting unintended consequences, flexibility in adapting to an uncertain future, and complying with legal requirements). We consider our proposed position better meets these principles than introducing a central agent.

Next steps

We are consulting on our proposed position. This consultation runs until 12 November 2018. Following this, we will consider responses and decide whether or not to proceed with our proposal. We envisage issuing our decision around winter 2018/19.

1. Introduction

What are we consulting on?

1.1. As part of our work on market-wide settlement reform, we have been considering whether or not to centralise functions currently performed by supplier agents. We think that our work on settlement reform should not include centralisation of agent functions, and that there may well be a case for future models where data is not aggregated for submission into central settlement systems. We are now consulting on this position.

Chapter 2: Analysis

1.2. We provide additional information on each of the six analytical areas we set out in our March 2018 working paper. This is based on feedback from stakeholders and further analysis. We then summarise our current thinking in each area.

1.3. We do not consider that a central agent is required to improve data quality, reduce issues when data is transferred between parties (hand-offs), provide third parties with access to data for value-added services, or improve the implementation of industry changes. There may be some economies of scale available from a central agent, but these are likely to be small. However, we do not see differentiation in settlement performance as a particular reason to maintain a decentralised supplier agent model.

1.4. **Question 1:** Do you have any comments on our updated analysis and thinking?

Chapter 3: Our proposed position

1.5. Our proposed position is that our work on market-wide settlement reform should not include centralisation of agent functions. We seek views on whether data needs to be aggregated in future for submission into central settlement systems. We assess our proposed position against the principles we set out in our March 2018 working paper, and explain why we consider our proposed position better meets these principles than introducing a central agent.

1.6. **Question 2:** Do you agree with our proposed position? If not, please explain why.

1.7. **Question 3:** Do you consider that settlement data will still need to be aggregated for submission into central settlement systems in future? In light of this, do you consider that a data aggregation role is required?

1.8. **Question 4:** Do you agree with our consideration of our proposed position against our assessment principles?

Context and related publications

What are supplier agents?

1.9. Under the Balancing and Settlement Code (BSC), electricity suppliers appoint supplier agents to carry out certain functions related to settlement. Some larger business customers

contract with their own agents, but the supplier retains responsibility for compliance with the BSC, under the supplier hub principle.

1.10. There are three supplier agent roles for metered supplies¹:

- meter operation agent;
- data collector; and
- data aggregator.

1.11. Our work on supplier agent functions is part of our project on market-wide settlement reform. We are considering this through a Significant Code Review. Other workstreams within this project include: designing the Target Operating Model for future settlement arrangements, considering policy issues such as access to half-hourly consumption data for settlement purposes, and delivering a business case.

1.12. The aim of our work on market-wide settlement reform is to facilitate a smarter, more flexible energy system and to empower consumers to take an active role in the energy system transition as the sector decarbonises. Within our Forward Work Programme priorities for 2018/19,² our work most closely aligns with "Facilitating change in the energy system".

Process to date

1.13. We published a working paper on agent functions in March 2018. This set out our analysis to date and explained where we had open questions. This update for stakeholders provided us with an opportunity to test our thinking, and to seek further evidence where possible. The working paper drew on a range of sources, including a Request for Information (RFI) which we issued in August 2017.

1.14. After publishing the working paper, we have proactively contacted external stakeholders and held a number of meetings with them. We presented at a stakeholder event on 15 May 2018 organised by ELEXON, and received comments from attendees. We have also received written feedback. We are grateful to all those who have taken the time to feed into our work. Among others, we have received feedback from supplier agents, suppliers (including smaller suppliers), code bodies, and non-traditional businesses.

Related publications

- Ofgem (2017), Electricity Settlement Reform Significant Code Review: Launch Statement, revised timetable, and request for applications for membership of the Target Operating Model Design Working Group.
<https://www.ofgem.gov.uk/publications-and-updates/electricity-settlement-reform-significant-code-review-launch-statement-revised-timetable-and-request-applications-membership-target-operating-model-design-working-group>

¹ There are additional roles in relation to unmetered supplies.

² Ofgem (2018), Forward Work Programme 2018-19, p5.

<https://www.ofgem.gov.uk/publications-and-updates/forward-work-programme-2018-19>

- Ofgem (2017), Request for Information on supplier agent functions. <https://www.ofgem.gov.uk/publications-and-updates/request-information-supplier-agent-functions>
- Ofgem (2018), Supplier agent functions under market-wide half-hourly settlement – working paper. <https://www.ofgem.gov.uk/publications-and-updates/supplier-agent-functions-under-market-wide-half-hourly-settlement>
- Ofgem (2018), Market-wide Settlement Reform: Outline Business Case. <https://www.ofgem.gov.uk/publications-and-updates/market-wide-settlement-reform-outline-business-case>

Consultation stages

1.15. During the consultation period, we would be happy to meet with stakeholders to hear your views. If you would like to arrange a meeting or teleconference, please contact: half-hourlysettlement@ofgem.gov.uk.

1.16. The closing date for responses is 12 November 2018. Following this, we will consider responses and decide whether or not to proceed with our proposal. We envisage issuing our decision around winter 2018/19.

How to respond

1.17. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

1.18. We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.19. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.20. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.21. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.22. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 1.

1.23. If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

1.24. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

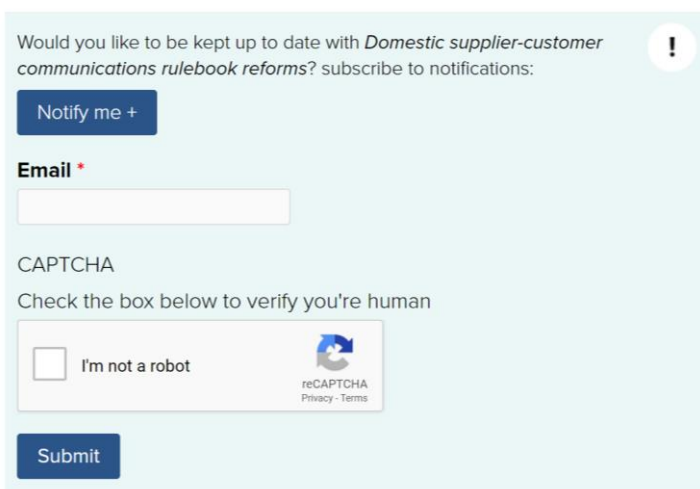
1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6.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

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

How to track the progress of the consultation

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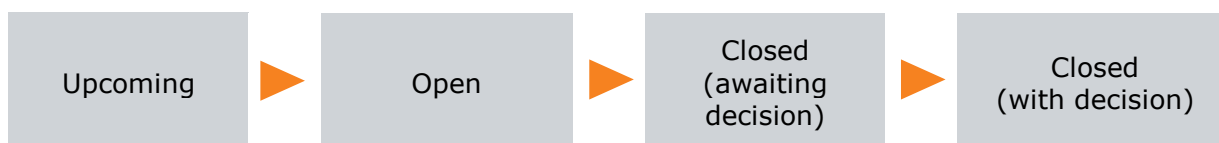
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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



2. Analysis

Section summary

We provide additional information on each of the six analytical areas we set out in our March 2018 working paper. This is based on feedback from stakeholders and further analysis. We then summarise our current thinking.

Questions

Question 1: Do you have any comments on our updated analysis and thinking?

2.1. In our March 2018 working paper, we set out six analytical areas. We said that these represent some of the key potential advantages and disadvantages of a central agent. These were:

- data quality in future;
- hand-offs;
- settlement performance;
- economies of scale;
- value-added services; and
- implementing industry changes.

2.2. The sections below run through each of these areas. We do not repeat all the information and evidence presented in the March 2018 working paper. Rather, we focus on the key feedback that stakeholders provided in response to the working paper, and any further evidence we have considered since then.

2.3. Where we obtained information on a confidential basis, we have anonymised the names of stakeholders below, by referring to the type of party. In general, these are self-explanatory. Some supplier agents are part of a supplier group and others are not – where we think it is necessary to make this distinction, we refer to them as “integrated supplier agents” and “standalone supplier agents” respectively.

2.4. In the March 2018 working paper, we noted that our initial work focussed on whether or not a central agent could have merit in principle. We recognised that there were a wider range of issues beyond this, such as the practicalities of putting a central agent in place. Given our view in principle (see chapter three), we have not found it necessary to investigate these wider issues.

Data quality in future

What is the issue?

2.5. The processes set out in the Balancing and Settlement Code (BSC) seek to ensure that the data used in settlement is as accurate as possible. However, issues can occur which limit the accuracy of settlement data, on either a transitory or a permanent basis.³ We refer to these as exceptions. The functions currently performed by supplier agents contribute to identifying, mitigating and resolving exceptions.

2.6. The energy market is changing, due to developments like the smart meter rollout and the potential introduction of market-wide settlement reform. The exceptions that supplier agents currently work to address may therefore change in future. Understanding this is a key piece of context, as the nature of these exceptions may affect who is best-placed to address them.

Summary of initial thinking in March 2018 working paper

2.7. We said that data quality should improve significantly in future, especially due to the smart meter rollout and market-wide half-hourly settlement (HHS). This probably reduces the importance of the role of agents, whether centralised or not. However, it may also reduce the scope for a central agent to offer benefits by improving data quality. While there will be some residual exceptions, there are not many cases where it is clear that a central agent could help to address them.

Feedback and further evidence

2.8. Stakeholders broadly agreed with our initial view on data quality in the March 2018 working paper.

2.9. A few stakeholders noted caveats about the extent to which smart meters and HHS would improve data quality in practice. One trade body noted that there are prerequisites for HHS to simplify settlement (a correctly installed meter linked to the correct Meter Point Administration Number (MPAN), with working communications equipment). One supplier told us that it was somewhat sceptical about the magnitude of a reduction in data quality problems.

2.10. One supplier agent agreed that data quality may improve due to smart meters and HHS, but it did not agree that this would reduce the role for supplier agents. For example, it said that supplier agents would still have a role in addressing meter faults and communications issues. We accept that agents (whether centralised or not) may still have some ability to influence data quality, even if they are retrieving data via the Data and Communications Company (DCC). However, we consider that the role for agents will be smaller than before the introduction of the DCC.

³ Many issues will be resolved before the final reconciliation run (RF). These may affect the accuracy of previous settlement runs, but will not affect the final settled volumes. Other issues will remain unresolved at RF, and end up being crystallised in settlement.

Summary of updated thinking

2.11. Our position is unchanged from the March 2018 working paper. Data quality should improve significantly in future, especially due to the smart meter rollout and market-wide settlement reform. We accept that there are still likely to be some residual exceptions. These would need to be identified within a much greater volume of data than currently – this may create some new challenges. However, we have not seen evidence that a central agent would help to provide further improvements to data quality.

Hand-offs

What is the issue?

2.12. One potential argument for a central agent is to reduce the number of exchanges of data between parties. We refer to these as hand-offs. In theory, reducing the number of hand-offs could reduce the opportunities for data to become corrupted, and would ensure that there was a single version of the truth. This could reduce the number of exceptions.

2.13. Some of the current interactions between agents could be internalised within a central agent. For example, if there were a central agent carrying out data collection and data aggregation, there would be no need to pass information between these agent roles. In addition, a central agent would have ongoing information about a meter point, even if a customer switched supplier.

Summary of initial thinking in March 2018 working paper

2.14. We considered that the importance of hand-offs will fall, especially because standing data is less important for HHS. Our provisional view was that it did not appear that a central agent would have a significant impact on the number of hand-offs or any consequent exceptions.

Feedback and further evidence

2.15. We received limited feedback on this area. One supplier said that it supported our views on hand-offs.

2.16. One supplier agent agreed that hand-offs were lower in the half-hourly (HH) segment than in the non-half hourly (NHH) segment. However, it said that the existing HH segment had evolved to deliver this already, through consolidation of data collection and data aggregation. It also said that supplier agents are often maintained through change of supplier events, and so a central agent might not offer an advantage in this regard.

2.17. In relation to the latter point, we note that this applies where a supplier agent has a contract directly with a customer, running for a different period than its supply contract. While this is a feature of the larger business segment at present, we do not see it as likely that large numbers of domestic and smaller business customers will seek to appoint their own supplier agents.

2.18. One supplier agent said that hand-offs do create challenges, but that these could be improved by industry changes, rather than centralisation. Under a supplier agent model, we

would encourage industry participants to continue to identify changes that could reduce any residual hand-off issues.

Summary of updated thinking

2.19. Our position is unchanged from the March 2018 working paper. We consider that the importance of hand-offs will fall, especially because standing data is less important for HHS. It does not appear that a central agent would have a significant impact on the number of hand-offs or any consequent exceptions.

Settlement performance

What is the issue?

2.20. We want to understand whether supplier agents differentiate themselves by providing a higher level of settlement performance above the baseline settlement standards set out in the BSC. Intuitively, a central agent may be able to provide a single level of performance, but may be less able to respond to the needs of individual suppliers (or end customers) by providing different commercial offerings. Therefore, if agents provide a range of differentiated service levels, then this could be an argument in favour of maintaining a model with supplier agents.

Summary of initial thinking in March 2018 working paper

2.21. At that stage, the evidence suggested that performance varies to some extent between supplier agents and between contracts. However, we did not know for sure whether differences in the level of performance generally reflect deliberate policies of differentiation, as opposed to natural fluctuations. Even where differentiation is deliberate, there was some evidence to suggest that suppliers or consumers seek higher levels of performance for non-settlement reasons.

2.22. We had not seen strong evidence to suggest that settlement performance is a particularly important area of differentiation, compared to non-settlement value-added services (which we discuss below).

Feedback and further evidence

2.23. One supplier said that it supported our views on settlement performance.

2.24. We received a few suggestions that supplier agents may differentiate themselves through settlement performance. One trade body disagreed with our suggestion in the March 2018 working paper that a supplier agent would have less ability to guarantee a particular performance level once data retrieval is performed via the DCC. It said that agents would still be able to differentiate themselves by identifying faults and finding the most economic way to investigate them. One supplier agent told us that it seeks to differentiate through performance levels and finds different expectations among customers.

2.25. We also received a few suggestions that suppliers may value higher settlement performance. One supplier said that it valued faster data collection as it could be used for forecasting. One supplier agent said that settlement performance is a differentiating factor. For example, it said that suppliers who struggle with performance will look to change their

supplier agent. It said that having a better-performing supplier agent would reduce the amount of resource a supplier needed for agent management.

2.26. We also received a comment about agents' existing level of performance. One supplier agent said that competition currently delivers service levels above those required by regulation. It provided data showing that its performance was "in almost all cases" above the 99% performance standard over a nearly six year period.

2.27. To the extent that suppliers or end customers want the same things as one another (eg high performance or fast data), a central agent would in principle be able to deliver this. The stronger argument in favour of maintaining supplier agents would be if suppliers or end customers have a range of different needs in relation to settlement performance. We have not seen clear evidence of this.

Summary of updated thinking

2.28. Our position is unchanged from the March 2018 working paper. We had not seen strong evidence to suggest that settlement performance is a particularly important area of differentiation, compared to non-settlement value-added services. We therefore do not see settlement performance as a particular reason to maintain a decentralised supplier agent model.

Economies of scale

What is the issue?

2.29. We want to investigate whether a central agent would have lower costs than supplier agents due to economies of scale from covering a larger number of customers. If there are large fixed costs of developing suitable systems, then these economies of scale could be significant. Economies of scale would ultimately reduce the costs of the service for consumers (assuming any cost reductions are passed on).

Summary of initial thinking in March 2018 working paper

2.30. Our initial view was that it appeared that there may be some economies of scale from a central agent, but these are likely to be fairly small in absolute terms. This is especially because supplier agents would still be achieving some scale themselves – supplier agents under market-wide HHS would still be serving at least a couple of million meter points. If further economies of scale exist, it might be possible to achieve some of these commercially (through consolidation in the number of supplier agents), rather than through a central agent. This means that the incremental economies of scale for a central agent may be fairly small.

Feedback and further evidence

Cost uncertainty and fixed costs

2.31. One key theme from stakeholders was uncertainty about future costs. One supplier said that costs for a smart HH agent are unlikely to be similar to existing agents, for example because the data source is different. One supplier agent said that its future costs with market-wide HHS would be very different, and it would be hard to predict the size of any

fixed costs without a final TOM. We recognise that it is difficult to develop a precise view about costs under market-wide half-hourly settlement at this stage.

2.32. We received different views from stakeholders on the degree to which the costs of supplier agents are fixed (and therefore potentially subject to economies of scale). One supplier said that, for traditional HH meters, some costs are fixed and others variable. It said that a central agent might be able to reduce IT and staff costs compared to a decentralised supplier agent model for smart and traditional NHH meters (but not for traditional HH and AMR meters). However, one supplier agent said that variable costs are relatively high, such as retrieving data, account management and project management. It said that a significant majority of its costs were variable.

2.33. We recognise that it is uncertain what mix of fixed and variable costs agents will have in future under market-wide HHS. We are aware that some technological developments and market trends (eg cloud storage services) may increase the proportion of costs which are variable. This could make it easier for agents to scale their businesses. To the extent that either a supplier agent or a central agent could make use of such services, and therefore reduce the extent to which their costs are fixed, this would reduce the potential for economies of scale.

2.34. We still think that it is plausible that supplier agents will have some fixed costs (eg overheads). We also note that some of supplier agents' current variable costs in relation to communications may not be required in future under market-wide HHS, given that data will be retrieved via the DCC. However, the limited information available to us does not suggest that agents under market-wide HHS would have a large proportion of fixed costs. This would limit the potential economies of scale from introducing a central agent.

Set-up costs

2.35. Market-wide HHS may have some set-up costs for agents (whether centralised or not). In theory, a central agent could avoid duplication of investment. One supplier told us that a central agent should have the lowest cost if this can be shared across all parties, but only for smart and traditional NHH meters. However, one trade body said that supplier agents would build on their existing systems, so the set-up costs of a central agent would be higher.

2.36. In the March 2018 working paper, we noted that our estimate of the total incremental upfront costs for supplier agents under market-wide HHS was "in the low tens of millions of pounds". We have not received any information to help us refine this estimate further.

2.37. We based this estimate on a small number of quantitative estimates provided by supplier agents in response to our RFI. We used these figures to develop low, medium and high estimates. The majority of supplier agents provided qualitative responses – we used judgement to determine which estimate seemed most relevant to each response. Where supplier agents did not respond to the RFI or this question, we categorised them as medium cost. We multiplied the cost estimate for each case by the number of supplier agents allocated to that estimate, and calculated the implied total cost.

2.38. This estimate is extremely rough, and should be treated with caution. It is limited by the inherent difficulty of estimating costs for a future role which has not been defined and the extent of the data received from supplier agents. (For example, initial cost estimates may be subject to optimism bias).

2.39. However, this does not suggest that existing supplier agents would incur particularly large set-up costs. Given that any central agent would also incur some set-up costs, and that any upfront costs would be recovered over several years, any economies of scale in relation to upfront costs could be small, especially when expressed as an annual saving per customer.

2.40. We have tried to consider the potential set-up costs of a central agent. We looked for international examples. However, we were not able to find a precise comparator. Central bodies that carry out agent functions in other markets are also often responsible for communicating with smart meters or handling market processes such as switching. These costs would not be necessary for a central agent in the GB market, as these tasks are the responsibility of other parties.

2.41. Table 1 below shows information about international examples of central bodies that carry out some or all agent functions. In particular, we have looked into the cases of Ontario, Denmark and Norway. Although none of them is a precise comparator, we think that these examples at least provide a potential upper band for the set-up cost of a central agent in GB.

Table 1 – International examples of the upfront costs of central bodies

Market	Functions delivered by central body	Upfront cost: original currency (i)	Illustrative upfront cost: pounds (ii)
Ontario	The Meter Data Management Repository collects data from distribution companies (not directly from the meters). It validates, estimates and edits consumption data. It sends the quantity of data consumed in peak, mid-peak and off-peak periods back to the distribution companies for use in billing.	Canadian \$100.1m of upfront costs to be recovered in the 2012-2017 budget period ⁴	£65m
Denmark	The Danish DataHub is an IT platform that is independently owned and operated by Energinet (the Danish national transmission system operator). DataHub facilitates and automates the execution of market processes and business transactions in the Danish electricity retail market. Meter readings from approx. 3.5 million metering points (consumption and production) are registered and managed in the DataHub for settlement purposes.	DKK 450m – 2015 estimate of total investment in DataHub and wholesale model ⁵	£52m
Norway	EIHub is a portal for transferring consumption data and other information. It is also responsible for facilitating supplier switches. (It does not retrieve data from the meters).	NOK 600-700m – expected investment from 2017 annual report ⁶	£56-66m

Notes:

- (i) Upfront costs are as reported in the original sources.
- (ii) Illustrative upfront cost in pounds calculated using historical exchange rates.

2.42. Similarly, we also considered whether there was any cost information from the recent introduction of competition in the business water market in Great Britain. This included the creation of a new Market Operator (MOSL). However, MOSL occupies the roles carried out by several parties in electricity, as well as carrying out some of the tasks which we might characterise as agent functions. In the two and a half year period between being set up and market opening, MOSL received £16.4m in funding from its members.⁷

⁴ Independent Electricity System Operator (2017), Smart Metering Entity 2018 Fee Application. EB-2017-0290. Exhibit B, Tab 1, Schedule 1.

<http://www.rds.oeb.ca/HPECMWebDrawer/Record/582282/File/document>

⁵ Energinet (2016), Annual Report 2015, p26.

<https://en.energinet.dk/-/media/BEC4F5601D654BA9AD009DAA43E68DF0.pdf>

⁶ Statnett (2018), Annual Report 2017, p24.

<http://www.statnett.no/Global/Dokumenter/Om%20Statnett/Finans/%C3%85rsrapport/Statnett%20Annual%20Report%202017.pdf>

⁷ Market Operator Services Limited (Company number 09276929), Directors report and financial statements for the year ending 31 March 2017. Sum of members' funding for the year ending 31 March 2017 and the 18 months to 31 March 2016.

2.43. Given its limitations, we placed limited weight on the comparator information from other countries and sectors. However, this does mean that we cannot rule out the possibility that a central agent could have significant set-up costs.

2.44. Several stakeholders also told us about factors that could counteract any economies of scale from a central agent. One supplier said that any economies of scale from centralisation could be eroded by a lack of competitive pressure on the central agent. Another supplier told us that centralisation had other costs such as administration that might offset the benefits of economies of scale. One supplier agent said that there would be significant economies of scale using a competitive market for market-wide HHS, and that any further cost reductions due to centralisation would also lead to reduced innovation. One supplier said that centralisation would actually lead to higher costs, acting as a barrier for new entrants into the supply market.

Summary of updated thinking

2.45. Our position is largely unchanged from the March 2018 working paper. There may be some economies of scale from a central agent. For example, any set-up costs of moving to market-wide settlement reform could be recovered from more customers than would be possible for a supplier agent. However, we do not have reason to believe that these savings would be large – particularly when some economies of scale could be achieved under a competitive model if this was the efficient solution.

Value-added services

What is the issue?

2.46. As well as performing the core settlement tasks set out in the BSC, supplier agents also provide other services to suppliers or end customers. We refer to these as 'value-added services'.

2.47. In principle, a central agent would not appear well-suited to providing value-added services itself. Suppliers and customers may want a range of different value-added services; supplier agents operating in a competitive market are likely to be better able to respond to the individual needs of suppliers and customers than a central agent would be.

2.48. We want to understand whether (and how) these value-added services are dependent on performing data collection or data aggregation, as opposed to simply having access to the relevant data. If these value-added services are dependent on carrying out data collection or data aggregation, and therefore introducing a central agent would lead to a loss of value-added services, this would be an argument in favour of maintaining the current supplier agent model.

Summary of initial thinking in March 2018 working paper

2.49. Supplier agents clearly provide a range of value-added services. At that stage, we did not find that value-added services are dependent on acting as a data collector or data aggregator, provided that parties have the data they need. However, there were questions about whether it would be more expensive to provide value-added services on a standalone basis.

Feedback and further evidence

2.50. One initial question is whether domestic and smaller non-domestic customers will be interested in value-added services. We received mixed views on this. One integrated supplier agent said that its larger business clients use validated data to check their bills, but that domestic customers may have less sophisticated data needs. One supplier said that it was unlikely that domestic consumers would analyse their consumption to the same extent as Industrial and Commercial (I&C) customers, as they do not consume the same volumes which make it worth analysing and optimising consumption patterns. However, it said that, under market-wide HHS, some domestic customers may benefit from tools to help them understand whether a time of use (TOU) tariff is suitable for them, and consumers with TOU tariffs will need tools to help them manage their demand. One trade body said that provision of new customer services would help to meet the ambition for smart metering to improve customers' understanding and management of their energy consumption.

2.51. Based on this feedback, we think it is plausible that domestic and smaller non-domestic customers will have less interest in value-added services than larger businesses. However, it also appears plausible that there may be some interest from these customers in value-added services under market-wide settlement reform, as the range of possible services expands. It is therefore relevant to consider the impact on value-added services from different models of providing agent functions.

Economic viability of value-added services provided by supplier agents

2.52. Some supplier agents told us that value-added services would be more expensive on a standalone basis, because they rely on sharing costs with agent functions. One supplier agent said that value-added services are a joint product with the core supplier agent role (for example sharing a development team). It said that centralisation would duplicate some of these costs, at least in the short run. It also said that third parties who provide value-added services also rely on sharing fixed costs with other services, such as building management services. Another supplier agent told us that value added services are based on economies of scope, as they rely on the traditional supplier agent functions. One integrated supplier agent told us that value added services are a marginal activity that are not economically viable as a stand-alone business.

2.53. One supplier said that centralisation would restrict the number of service providers able to innovate and bring new technologies and services to market, hampering innovation.

2.54. We can see the logic that value-added services may benefit from economies of scope, in order to share certain costs (though we note that we have not received much detail on which costs this applies to). Such economies of scope do not necessarily need to be realised through sharing costs with agent functions – in principle, they could be achieved through sharing costs with other types of businesses. Ultimately, if enough consumers value a service sufficiently relative to the cost of providing it, there should be sufficient demand to attract providers. Potential providers will be able to compete over the most efficient way to provide these services, taking into account any synergies with their other activities.

2.55. We are therefore not sure that there would necessarily be an increase in the costs of value-added services if we were to centralise agent functions. However, we accept that there could be a risk of disruption. For example, some agents might leave the market if they did not see a business case for providing value-added services on a standalone basis.

Access to consumption data for value-added services by third parties and supplier agents

2.56. Supplier agents and third parties will want to provide value-added services beyond settlement. Access to consumption data is key for this. Our current view is that a situation with any party acting as a gatekeeper to this data would be harmful. We have not identified any countervailing benefits.

2.57. We considered various options for providing access to consumption data. These were:

- Access to unvalidated data at the meter through the Other User role under the Smart Energy Code. (In relation to smart meters, access to unvalidated data could also be provided through a Consumer Access Device). (*Option one*)
- Access to validated data from supplier agents. (*Option two*)
- Access to validated data through a centralised data aggregator⁸. (*Option three*)
- Access to validated data from a single database outside settlement, populated with a copy of information from supplier agents. (*Option four*)

2.58. One question is whether parties providing value-added services require access to validated consumption data,⁹ or whether access to raw data at the meter is sufficient. Stakeholders provided mixed views on this. One supplier agent agreed that users want validated data instead of raw data, whereas one supplier said that raw (unvalidated) data should be enough for most third parties providing added value services. It said that the main issue with unvalidated data is the margin of error – if this margin is small (as it would be in a smart world) then using unvalidated data would not be a problem.

2.59. Some stakeholders suggested that the question depended on what the data is needed for. One participant at the workshop said that, if consumers want to check their bills, then it needs to be validated – whereas if data is only being used to check for trends in consumption, this is less important. One supplier agent said that, from the consumer's point of view, raw data is more relevant. On the other hand, suppliers might be more interested in validated data – for services related to settlement imbalance and billing reconciliation.

2.60. Based on the views presented to us, it is possible that raw data (option one) may be useful in some cases. Whatever our decision on agent functions, parties will still have the option of registering as an Other User and requesting raw data from the smart meter (subject to the Data Access and Privacy Framework and other data protection requirements). However, we have not seen evidence that this data will be sufficient for all parties or all cases. We have therefore proceeded to consider the merits of the options for providing access to validated consumption data.

2.61. A couple of stakeholders noted that the speed of access to data is important. One innovator told us that it wanted a combination of access to unvalidated data at the meter and

⁸ Note that if there is no data aggregator (as discussed from paragraph 3.11) there might be a single database of validated data within central settlement systems – this is distinct from a centralised body with a remit to carry out aggregation.

⁹ By validated consumption data, we mean the data which has been subject to data processing. This includes data estimation as well as data validation.

access to validated data through supplier agents. It said that the former would enable access to data at close to real time to support domestic demand side response, local balancing and energy efficiency. It said that the latter would provide validated data for later access. One participant at the workshop said that consumers may want to see their consumption data in real time, and questioned whether a centralised data aggregator could provide this.

2.62. Data will likely take some time to validate, and so validated data may never be accessible immediately. Similarly, access to unvalidated data through the Other User role under the Smart Energy Code may be subject to the speed at which service requests can be fulfilled. However, if a central agent (option three) may not be able to support the full range of stakeholders' needs, such as access to data at stakeholders' desired frequency, then this may weaken the case for introducing one on the basis of access to data.

2.63. One innovator also told us that a centralised body would be harder for smaller and innovative organisations to engage with. While this is only one comment, we note the risk of trying to implement a centralised solution as a way of catering to the needs of a diverse range of innovators. However, some suppliers said that a centralised service may reduce barriers to new suppliers entering the market by meaning that they would only have to deal with one central service.

2.64. Another option is for supplier agents to provide consumers with access to data (option two). This may already happen at present to some extent. One supplier agent told us that its customers with a direct contract can use its internet portal to access data, or allow third parties to access data. It said that there is no additional fee for this. Where the supplier has the contract with the supplier agent, the supplier agent said that there are a range of options in the event that the energy supplier's customer wants to access data directly from the supplier agent.

2.65. As noted above, we do not consider that many domestic and smaller non-domestic customers are likely to want to contract with supplier agents for agent functions. Most of these customers would therefore have a supplier agent who is appointed by their supplier, who may have some incentives to restrict access to data.

2.66. One innovator said that it finds it difficult to deal with multiple agents, especially to get data from them. It therefore said that it favours a central agent. We note that there may be room for improvements in terms of how supplier agents provide data to third parties – however, there may be ways of doing this that stop short of centralisation.

2.67. One trade body told us that there is already provision in the BSC for access to metering data. Specifically, the BSC states: "the Customer (in relation to a Metering System at any premises) or Third Party Generator (in relation to a Metering System at Third Party Generating Plant) shall be entitled to access, obtain and use metering data relating to that Metering System without charge".¹⁰ It also told us that agents could be required to make data accessible to other parties at the same point they started to use it for their own value-added services.

2.68. The existing BSC text identified is a useful precedent. It may be possible to make changes to the BSC to address any gaps or potential flaws in this approach (eg around the

¹⁰ BSC Section L, paragraph 5.1.2.

timing and format of data), if this was the key route for providing access to validated consumption data.

2.69. We also welcome the existing reference to access being free of charge. We think this is important, given that a consumer would already have paid for the cost of processing data through the costs of agent functions (which are recovered by suppliers through energy bills). We would want to avoid a situation where a consumer is being charged twice for access to the same data.

2.70. We did not receive many comments on the idea of a central copy of data outside settlement (option four). One supplier supported the idea of either a central data aggregator or a central database outside settlement as a source of settlement data. However, it said that there could be security issues. One innovator said that a single database outside settlement would prevent effective local balancing, if the net position resulting from local balancing cannot be entered into settlement.

2.71. We have not seen a strong case for introducing a central copy of data outside settlement at present. This could have some of the same costs as a central agent, but would not be able to share these costs with settlement processes, and the data would not be usable within settlement. However, if there was a desire to create a 'one stop shop' for access to settlement data, a central copy of data could potentially be created at a later date – even if we maintained decentralised supplier agents. On a similar note, one code body said that a platform could be created to recover data stored separately by several supplier agents, and offer one access point for third parties, rather than constructing a central database.

Summary of updated thinking

2.72. We do not consider that value-added services are dependent on carrying out data collection or data aggregation, provided that parties have the data they need. We are also not sure that these services would be more expensive when provided separately from data collection or data aggregation, although we accept that this could be a risk as a result of a disruption to the structure of the market. We therefore consider that trying to avoid harm to value-added services is not a strong reason to prefer a decentralised supplier agent model over a central agent model in principle.

2.73. We do not consider that a central agent is required in order to provide access to data for third parties to provide value-added services. There are various possible options to prevent any party from acting as a gatekeeper to settlement data. We therefore do not consider that a central agent is inherently required to avoid gatekeeping, when there appear to be more proportionate solutions.

Implementing industry changes

What is the issue?

2.74. Implementing code changes can require action by supplier agents – for example to implement new data flows. As part of our wider drive to make industry codes more

responsive to strategic change,¹¹ it is worth thinking about which model best allows changes to be implemented at pace.

2.75. In principle, there could be reasons why either supplier agents or a central agent could be most efficient at delivering industry changes. Having a central agent would mean that only one system needed to be adapted to implement a modification – this could be quicker than changing the systems of several supplier agents. There could be greater flexibility if changes could be implemented by extracting new groupings of data from a central agent’s system, rather than transferring new information between parties. However, there is a risk that a monopoly central agent might become inefficient and slow-moving.

Summary of initial thinking in March 2018 working paper

2.76. At that stage, we said that we had not seen evidence that supplier agents are currently a particular source of delays to industry changes, at least relative to other parties. This is separate to the question of whether there is room for improvement in the speed at which the industry as a whole delivers change.

2.77. We also had not identified specific potential future changes which would require a central agent to deliver them. However, noting the volume of potential changes that may be required in future, we thought there was still an open question about whether or not a central agent could help to deliver change more quickly and easily. This would be an enabling measure, rather than to deliver any one specific change.

Feedback and further evidence

2.78. A couple of stakeholders agreed with our view in the March 2018 working paper that we had not seen evidence that supplier agents are currently a particular source of delays to industry changes. One code body said that it did not see supplier agents as having been particularly responsible for hindering industry change. According to it, other elements are holding back innovation in the market, such as the industry having to move at the speed of the slowest party, and the governance process to introduce changes being too slow and complex. One supplier agreed that supplier agents were not the main or sole factor blocking changes. Nevertheless, it said that a central agent might help change to some extent.

2.79. Another supplier said that a central agent could have a lower cost of change, as these costs could be shared across all parties, but only for smart and traditional NHH meters. It also said that a central agent could provide additional services to support the migration of smart metered sites to HHS and provide reporting.

2.80. On the latter point, we would be cautious about justifying a particular way of delivering agent functions based on the transitory needs of implementing market-wide settlement reform. We need to select which model for agent functions is appropriate over the long-term.

2.81. Several stakeholders provided comments suggesting that a central agent could have difficulties in delivering change in practice. One supplier agent said that the costs of changing the outputs required from a central body may be high, given that the regulator has a weak

¹¹ See, for example: Ofgem (2017) Code Governance Remedies: working paper on Consultative Board and strategic direction.
https://www.ofgem.gov.uk/system/files/docs/2018/01/code_governance_remedies_working_paper_for_industry_workshops_q4_2017.pdf

negotiating position after establishing a monopoly. Similarly, one trade body said that a centralised model does not provide comparators to challenge cost or delivery timescales. It said that a central agent could be expensive, if the number of parties bidding was small, and that competitive pressure could fall further if the number of bidders fell when the service was retendered.

2.82. We accept that there are general challenges with regulating monopolies. We certainly do not see a case that a central agent would be inherently better at carrying out specific tasks to deliver changes than supplier agents. The potential theoretical benefit of a central agent would be if, as a consequence of the way data is organised, the amount of work required to deliver changes would be smaller, and therefore changes could be delivered more quickly.

2.83. However, one supplier told us that “it is rare for there to be changes in agent services that do not also require changes at the supplier”. It therefore said that centralising agent functions would not affect the number of supplier systems which would need changes. We agree that it is sensible to look at how changes would be implemented as a whole, rather than just focussing on what agents would need to do.

2.84. One code body told us that changes like project TERRE¹² and Electricity Market Reform were creating a need for changes to settlement to take into account different types of parties. It said that there would be more such instances going forward (ie increasing the amount of industry change).

2.85. We accept that the pace of change in the electricity market has increased (which increases the importance of delivering change in the most efficient way). We welcome the development of innovation and new business models. We will seek to develop the TOM in a way that is as future-proof as possible to future developments – eg by considering whether data needs to be aggregated for submission into central settlement systems (see chapter three). However, we have not seen evidence that a central agent is necessary to enable future changes.

Summary of updated thinking

2.86. Our position on the current experience of delivering industry changes is unchanged from the March 2018 working paper. We have not seen evidence that supplier agents have been a particular source of delay to industry changes to date.

We also do not consider that a central agent is essential for implementing changes in future. We note that there is a question about whether aggregated data should be provided into central settlement systems at all – we discuss this in chapter three.

¹² Project TERRE is a cross-border balancing project.

3. Our proposed position

Section summary

We are proposing that our work on market-wide settlement reform should not include centralisation of agent functions. We seek views on whether data needs to be aggregated in future for submission into central settlement systems. We assess our proposed position against the principles we set out in our March 2018 working paper.

Questions

Question 2: Do you agree with our proposed position? If not, please explain why.

Question 3: Do you consider that settlement data will still need to be aggregated for submission into central settlement systems in future? In light of this, do you consider that a data aggregation role is required?

Question 4: Do you agree with our consideration of our proposed position against our assessment principles?

Our proposed position

3.1. In summary, our proposed position is that our work on market-wide settlement reform should not include centralisation of agent functions, and we think that there may well be a case for future models where data is not aggregated for submission into central settlement systems. At this stage, we have not seen compelling reasons why a central agent would deliver significant consumer benefits in principle. We set out our position on each of the agent roles under the headings below. In the second half of this chapter, we then consider our proposed position against our assessment criteria.

3.2. We recently published our response to our call for evidence on future supply market arrangements.¹³ We set out that we are considering fundamental reforms to the supplier hub model, and will evaluate how alternative arrangements might operate in practice.

3.3. Any fundamental changes to the supply market may have implications on a number of parties, including suppliers and supplier agents. We therefore emphasise that our current proposal is set out in the context of our work on market-wide settlement reform, and based on the evidence relevant to this project. We are not ruling out any impacts on supplier agents which may flow from any wider Ofgem reforms. Any wider changes would be based on further analysis, considering all the relevant benefits and drawbacks. This would include a process of consultation with affected stakeholders.

¹³ Ofgem (2018) Future supply market arrangements – response to our call for evidence. <https://www.ofgem.gov.uk/publications-and-updates/future-supply-market-arrangements-response-our-call-evidence>

Data collection

3.4. **Our proposed position is that that our work on market-wide settlement reform should not include centralisation of data collection.** Supplier agents would therefore continue to deliver this role under market-wide settlement reform.

3.5. Our assessment has focussed on smart meters. However, given that we do not see merit in centralising data collection for smart meters, we also do not propose to centralise data collection for advanced meters¹⁴ (or larger non-domestic customers). We note that centralising data collection would be more complicated for advanced meters than for smart meters. This is because supplier agents are responsible for organising communications with advanced meters, whereas the Data and Communications Company (DCC) provides communications services for smart meters.¹⁵

3.6. This position is supported by some of the discussions we had with stakeholders. For example, one supplier provided a number of reasons why advanced and traditional half-hourly (HH) meters are different to smart meters. For example, it said that there is no single communication method for advanced and traditional HH meters, unlike for DCC-enrolled smart meters. It said that this would increase costs and complexity for a central agent who was responsible for advanced meters. It also said that standards are more rigorous for sites with higher consumption, and that this can make additional work on achieving compliance and accurate estimation worthwhile (eg manual downloads of data).

3.7. We received a couple of suggestions that it might be worth considering centralising manual meter reading for the residual sites without smart meters. As the number of traditional meters falls, the unit costs of pedestrian meter readings may increase, given that staff will need to travel further between sites. We consider it to be suppliers' responsibility to establish efficient commercial arrangements for meter reading.

Meter operation

3.8. In light of our proposal not to centralise data collection, **we are proposing that our work on market-wide settlement reform does not centralise meter operation.** This is in line with our position in the March 2018 working paper – that we would only consider centralisation of meter operation if we thought that centralisation of data collection and data aggregation had merit in principle.

3.9. As set out in the March 2018 working paper, meter operation is different to data collection and data aggregation, because it involves site visits, even for smart meters. The need for site visits may reduce the potential for any economies of scale from centralisation. The case for centralising meter operation may therefore be weaker than for data collection and data aggregation.

¹⁴ The electricity supply licence defines an advanced meter as one that must be capable of recording at least half-hourly consumption data and of providing suppliers with remote access to this data. For the purpose of this paper, the main difference between smart and advanced meters is the centralisation of data retrieval for smart meters.

¹⁵ A meter which, in addition to traditional metering functionality (measuring and registering the amount of energy that passes through it), is capable of providing additional functionality (for example, recording consumption in each half hour of the day and of being remotely read) is known as a smart meter. It must also comply with the published technical specification.

3.10. This position is aligned with the small amount of feedback we received on meter operation. One trade body said that it did not support a centralised solution for metering. It told us that the larger metering market (for existing HH sites) has worked well, and that we should avoid making changes that disrupted this. One supplier also said that meter operation should not be centralised because this service would require a field force to carry out physical site visits, and there are complex meter asset arrangements that would need to be taken into account.

Data aggregation

3.11. **We think that there may well be a case for future models where data is not aggregated for submission into central settlement systems.** The data aggregation role may no longer be required in its current form, and we do not think that roles should be kept simply because they already exist.

3.12. As noted in our March 2018 working paper, data aggregation may partly reflect the technology which existed at the time it was introduced. The available technology may have limited the ability of central systems to cope with disaggregated data.

3.13. ELEXON recently announced plans to change its central systems.¹⁶ We understand that this will enable the central settlement systems to work with disaggregated data.

3.14. We do not think that submitting aggregated data into the central settlement systems is inherently desirable. In fact, having data in a disaggregated form could provide more flexibility to implement future changes, such as developing new aggregations of data. This could be a way of 'future-proofing' the Target Operating Model (TOM). For example, this could help the TOM to support, or facilitate a transition to, potential future supply market models.

3.15. At this stage, our view is that there may well be a case for a TOM that did not include data aggregation. We see this as a detailed design choice that should be examined by the Design Working Group (DWG) as part of the TOM work, taking into account the TOM design principles, before delivering the preferred TOM option to us.¹⁷ Additionally, even if data aggregators were needed with the current technology, we would like the DWG to think ahead and to analyse the desirability of having data aggregators in the future when technology has improved further. We will ultimately take the decision on the TOM developed by the DWG. We will take into account (among other things): the quality of the rationale presented for the proposed TOM, any stakeholder views on the proposed TOM, advice from our Design Advisory Board (DAB), and the cost-benefit analysis which we will carry out as part of our Economic Case.

3.16. There are a number of detailed design questions that would flow from any changes to data aggregation. We consider that the TOM design work would be able to consider these.

- Whether any changes to data aggregation should apply to: smart meters only, smart and advanced meters, or all meters.

¹⁶ <https://www.elexon.co.uk/news/message-mark-bygraves-ceo-digitising-elexons-technology-platform/>

¹⁷ Deliverable no.7 set out in page 10 ELEXON's Design Working Group Forward Work Plan. Available at <https://www.elexon.co.uk/documents/groups/dwg/dwg-latest-forward-work-plan/>.

- Who would take on responsibility for the other tasks currently performed by data aggregators, such as checks against registration data.
- How to maintain a high degree of security.

Functions related to access to data 'enhanced privacy' options

3.17. In our recent consultation on access to half-hourly data for settlement purposes,¹⁸ we discussed two 'enhanced privacy' options: 'hidden identity', where HH electricity consumption data would be retrieved by a new pseudonymisation service, which could be centralised, and anonymisation, where consumers could choose to have their data retrieved, processed and aggregated by a centralised body rather than by suppliers and their agents.

3.18. In this document, we are not discussing the merits of a pseudonymisation service or how it could be delivered, or the question of a centralised body proposed under the anonymisation option. A pseudonymisation service would be a new service, rather than a function that is currently performed by supplier agents, and a body carrying out anonymisation would be a new function that could sit alongside a competitive agent model

Rationale for proposed position

3.19. Our March 2018 working paper set out a number of assessment principles. These are repeated in table 2 below. We published these to provide transparency on the main criteria we intended to use.

¹⁸ Ofgem (2018) Consultation on access to half-hourly electricity data for settlement purposes. <https://www.ofgem.gov.uk/publications-and-updates/consultation-access-half-hourly-electricity-data-settlement-purposes>

Table 2: Assessment principles

Principle	Rationale for principle
Carefully considering alignment with our regulatory stances, particularly on competition and innovation ¹⁹	Our regulatory stances are an important way in which we help to deliver policy in the interests of consumers. We think that the principles on competition and innovation are the most relevant to this workstream.
Delivering settlement functions efficiently	Settlement functions affect all consumers. It is therefore important to consider how these can be delivered to a suitable standard and at a low cost.
Supporting the realisation of consumer benefits in a future market	The energy market is changing. We want consumers to be able to benefit from this (eg through new types of products). We want agent functions to enable this future where possible, and we want to avoid them creating barriers (eg in terms of any one type of party being able to withhold access to settlement data, if this is important to other parties).
Limiting unintended consequences	Our immediate focus is half-hourly settlement (HHS) for domestic and smaller non-domestic customers. However, we recognise that any decision could have wider implications (for other types of consumers or other non-settlement services). We will need to understand and consider such impacts carefully.
Flexibility in adapting to an uncertain future	There is uncertainty about what the market will look like, both in the near-term and the long-term. We will need to consider which model is best-placed to adapt to changing circumstances, and the value of such flexibility.
Complying with legal requirements	Any decision will need to take into account all relevant legal requirements.

3.20. We run through each of the principles below, and explain how we think our proposed position aligns with them.

Carefully considering alignment with our regulatory stances, particularly on competition and innovation

3.21. As part of our regulatory stance on competition, we state: “We believe that in general, a well-functioning market which delivers competitive outcomes is the best way to protect and promote consumers’ interests”. Recognising this, it would be a significant step for us to introduce a monopoly provider in an area that is currently subject to competition. We would need to see clear evidence that this was in consumers’ interests. As it stands, we have not seen such evidence. (We recognise that there are more general questions about whether the current market design as a whole is operating in consumers’ best interests). We therefore consider that our proposed position is better aligned with our regulatory stance on competition than introducing a central agent would be.

3.22. We think that there are two aspects in relation to innovation. First, there is innovation in the delivery of agent functions. Within our regulatory stance on innovation, we note our stance to “use competition as a way to drive innovation”. In principle, we would expect competition between supplier agents to drive them to identify better ways of delivering their services – our proposed position would therefore help this to continue. One supplier agent

¹⁹ Ofgem (2016) Ofgem’s regulatory stances. https://www.ofgem.gov.uk/system/files/docs/2016/12/ofg930_ofgems_regulatory_stances_document_web.pdf

The specific regulatory stances in relation to competition and innovation are: “Promoting effective competition to deliver for consumers” and “Supporting innovation in technologies and business models”.

said that it had invested in new ways of delivering services (eg machine learning) and in new ways of providing consumers with insights through its energy analytics platform.

3.23. Second, we need to consider the impact of agent functions on innovation by other parties (eg new business models). We need to avoid barriers to innovation. Lack of access to consumption data is a key potential barrier, but as discussed above we do not consider that a central agent is necessary to address any potential issues around access to data.

3.24. Overall, we consider that our proposed position is slightly better aligned with our regulatory stance on innovation than introducing a central agent would be, under the current market design.

Delivering settlement functions efficiently

3.25. As discussed in the previous chapter, there may be some economies of scale available from the appointment of a central agent but these are likely to be small.

3.26. Under our preferred approach, supplier agents may be able to deliver cost reductions over time. One supplier agent said that the price of supplier agent services had fallen over time.

3.27. As discussed above, we do not consider that a central agent would be likely to deliver material improvements in data quality or settlement performance.

3.28. Overall, we consider that either model could deliver settlement functions efficiently. A central agent could offer a slight advantage through realising any economies of scale. However, this would need to be set against the known difficulties in regulating a monopoly to deliver services in the most efficient way. Overall, we do not consider that this benefit is sufficiently large or certain to make us prefer a central agent over our proposed approach.

Supporting the realisation of consumer benefits in a future market

3.29. As discussed in the previous chapter, we do not consider that a central agent is necessary to address any potential issues with access to consumption data. We therefore do not consider that it would have advantages over our proposed option, in relation to this principle.

Limiting unintended consequences

3.30. We do not consider that a decision to centralise agent functions for domestic and smaller non-domestic customers would necessarily have an impact on the larger business segment. There are a number of technical differences between these segments. The larger business segment also represents a significant proportion of demand. While we have not examined this segment in detail, our current impression is that it would be possible to maintain decentralised supplier agents in this segment, even if we were to introduce a central agent for other customers. We therefore do not consider that our proposed approach would have particular advantages in terms of limiting unintended consequences in other segments.

3.31. In principle, value-added services could continue to be provided separately, even under a central agent. However, we can see that there is at least a potential risk of disruption to these services following an introduction of a central agent (eg if some parties stopped

providing them). We therefore consider that our proposed approach could have a slight advantage in limiting unintended consequences for value-added services.

Flexibility in adapting to an uncertain future

3.32. As noted above, one potential source of change is Ofgem policy work on future supply market arrangements. We consider that our proposed position is the best way of providing flexibility in response to this, as it avoids creating new market roles which may or may not be required under any future market design.

3.33. Introducing a central agent would appear difficult to reverse. Even if we later wanted to reintroduce a decentralised model, it might be hard to develop interest from scratch from potential market participants.

3.34. Another aspect of adapting to the future is implementing industry changes. Under our proposed position, we consider that supplier agents could implement industry changes successfully. We have not seen strong reasons to believe that a central agent could deliver changes to its systems any more cheaply or quickly than supplier agents.

3.35. As far as possible, we would want to futureproof the TOM. If it is no longer necessary to provide aggregated data to central settlement systems, this could help to make it easier to deliver future changes. Central settlement systems would already have access to more granular data, without the need for repeated changes to the data transferred between parties. Our proposed position is compatible with trying to futureproof the TOM.

Complying with legal requirements

3.36. We consider that our proposed position is compliant with legal requirements.

Appendices

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Appendix 1 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name, address and anything that could be used to identify you personally), not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk.

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest ie a consultation.

4. With whom we will be sharing your personal data

We are not intending to share your personal data with other organisations. We are intending to publish non-confidential consultation responses, including any personal data that may be contained within them.

5. For how long we will keep your personal data, or criteria used to determine the retention period

Your personal data will be held until the implementation of Ofgem's work on market-wide settlement reform.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making

9. Your personal data will be stored in a secure government IT system

10. More information

For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".