Rachel Clark, Switching Programme
Ofgem
9 Millbank
London
SW1P 3GE

16 November 2018

Dear Rachel,

<u>Re: Switching Programme: Regulation and Governance – way forward and statutory consultation on Licence modifications</u>

Thank you for the opportunity to provide respond to this consultation. Northern Gas Networks (NGN) has been actively involved in the switching programme as well as working collaboratively with Xoserve and industry in considering the impacts of consequential changes this may result in.

We have set out our responses the specific question in the consultation in the attached appendix. NGN has limited responses to the specific questions that impact on our business as a Gas Transporter or where consequential impacts to our contracts of processes have been identified at this point.

In general NGN agrees with the scope and structure of the Retail Energy Code (REC) and its schedules as set out in this consultation, which are consistent with the previous consultations.

The statutory changes proposed to the Gas Transporter Licence Standard Condition 14 are as anticipated. The additional duty to cooperation elements have been discussed at various industry meetings and we believe that this may provide improved arrangements for ensuring industry parties comply with wide scale changes that Significant Code Reviews can drive. We note that the definition of Significant Code Review included in this condition is not consistent with the definition in Standard Special Condition A11: Network Code and Uniform Network Code. Both definitions are relevant to their specific Licence conditions and associated codes, but we believe that multiple definitions can create scope for confusion. Our preference would be a single encompassing definition that can then be applied to each industry code.

I hope these comments will be of assistance and please contact me should you require any further information in respect of this response.

Yours sincerely,

By email
Stephen Parker
Regulation Director

Appendix1

Consultation Questions

Chapter Four
Question 4.1: We would welcome views on whether Ofgem should have an ongoing role in ratification RECCo Board appointments after the appointment of the first board

Following the initial set up of RECCo Board we believe there may still be a role for Ofgem in ensuring that there is a suitable skill set and balance of board members until such time as the arrangements are fully established. Any independent members who are not directly nominated by industry should continue to have Ofgem nomination or ratification.

Question 4.2: We would welcome views on whether the REC parties should have a role in ratifying the first and/or subsequent boards.

As Board members, the individuals will have duties and responsibilities under the Companies Act for the management of the business rather than the furtherance of their primary employers business. While this arrangement is already in place in existing codes, we believe that the responsibilities under REC are likely to be more significant that, for example, SPAA. While it is important for REC parties and industry in general to have confidence in the constitution of the board of RECCo, they should not be able to frustrate board nominations or have significant influence that may result in an individual holding conflicting appointments.

Question 4.3: Do you agree that the REC should place less reliance on face to face industry meetings for modification development and instead empower the REC manager to develop and analyse proposals, procuring expert support as and where required?

We welcome a more pro-active role for the REC manager to progress modifications and undertake analysis where they are able and it is appropriate. The independence of the REC manager is critical to facilitate this in a manner that does not appear to offer preferential treatment to an individual party of constituency of parties. Use of technology to share and present analysis will be challenging. Both Xoserve and the Joint Office of Gas Transporters have relatively recently implemented new systems when moving to new premises. These have not been universally successful and challenges for teleconferencing and ability for parties to interact during webex broadcast continue to be developed. Currently these are not able to replace face-to-face meetings, but provide useful additional opportunity for parties to engage with modification development.

Question 4.4: Do you consider that a recommendation to the Authority should be made by the RECCo Change Panel, with reference to the REC relevant objectives, or based on a vote of REC parties?

There are benefits from both approaches and the impact of this is largely dependent on whether the matters are material to parties and the scale of the change. The use of relevant objectives provides a useful test to ensure that recommendations are not solely based on company preferences and interests. Party voting tends to take a more commercial approach which can result in changes being frustrated due to technical implementation issues rather than providing improvements to the status-quo overall.

Question 4.5: Do you, in principle, support the approach to performance assurance outlined?

The approach proposed for performance assurance is reasonable in principle. We have noted that the establishment of suitably robust performance assurance arrangements into

the Uniform Network Code has been protracted and continues to take a considerable time to fully embed. We agree that the Performance Assurance Board should not be able to amend their own terms of reference or procedures without oversight from the RECCo Board.

<u>Chapter Five</u>
Question 5.1: Would you support the development of a REC digitalisation strategy?

Digitalisation of key industry documents to ensure that there is open access to material required to set out rights and obligations of parties is appropriate. This is unlikely to remove the needs of individuals to obtain printed versions in order to undertake review for specific purposes, but should be made available in such a way that encourages access to live documents in the first instance. The use of some current codes to package documents into Zip folders can make access difficult from some devices. Use of clear architecture for accessing materials should consider best practice from both existing industry codes and other non-industry sources of information and should be developed in consultation with industry parties.

Question 5.2: Do you agree that the draft Registration Services Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it could be improved.

This is in line with current expectations and we are supportive of the schedule including the necessary references to Transporter initiated registration arrangements contained within the UNC.

Question 5.3: Do you agree that the draft Address Management Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it could be improved.

This is in line with current expectations and we support updates to the Registered Metered Point gas addresses utilising existing arrangements with the Central Data Service Provider.

Question 5.4: Do you agree that the draft Data Management Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it could be improved.

This is in line with current expectations and we agree with the mapping onto existing UK Link data where appropriate.

Question 5.5: Do you agree that the draft Interpretations Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it could be improved.

This is in line with current expectations.

Question 5.6: Do you agree that the draft Entry Assessment and Qualification Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it could be improved.

N/A for gas transporters

Question 5.7: Do you agree with our proposals that:
- *PAB, as part of its role in mitigating risk to consumers and the market, should provide information to the REC Manager on specific risks that it wants to be mitigated and assured against through Entry Assessment and Re-Qualification;*

- *The Code Manager should have clear obligations to support the Applicant and coordinate with other code managers; and*
- *Suppliers that undertake a material change to their systems, processes or people should undertake Re-Qualification?*

N/A for gas transporters

Question 5.8: Do you think PAB and the REC Manager should work with service providers to identify and mitigate risks associated with material changes to their systems, processes or people?

Use of, and visibility of, key service provider business continuity arrangements could be used to ensure continuity of service material changes to systems, processes and people.

Question 5.9: Do you agree that the draft Service Management Schedule meets the required standards set out in the Regulatory Design Principles including whether we have set out clear and workable roles and responsibilities for Market Participants, service providers and the Switching Operator that will support the effective operation of the new switching arrangements? If not, please describe how you think it could be improved.

This is in line with current expectations.

Question 5.10: We would also welcome views on the draft service levels set out in Appendix B of the draft Service Management Schedule.

We are supportive of the schedule in principle, but believe that specific service levels and potential penalties need to be agreed across industry and proportionate to the impact of any service levels not achieved.

Question 5.11: : Do you agree that the draft Switch Meter Reading Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it could be improved.

N/A for gas transporters

Question 5.12: We welcome views on whether we should retain or amend the remit of the proposed Switching Meter Reading Exception Schedule beyond domestic consumers and electricity NHH consumers.

N/A for gas transporters

Question 5.13: Do you agree that we should move any requirements to obtain and process meter reads for settlement purposes into the BSC and UNC?

Current gas settlement meter read obligations are within UNC and should remain there.

Question 5.14: We welcome views on whether the Switching Meter Reading Exception Schedule should make specific provisions for consumers with smart gas meters.

N/A for gas transporters

Question 5.15: Do you agree that the draft Debt Assignment Protocol Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it could be improved.

N/A for gas transporters

Question 5.16: Do you have views on the management of security requirements in the REC? Please give reasons.

It is important that data associated with energy consumers is processed and retained in line with current legislation while providing appropriate access to industry parties to carry our their required activities. Secure access to data already exists within the energy industry and best practice or issues associated with extremely onerous arrangements should be considered when setting the appropriate levels of security requirements.

Chapter Six
Question 6.1: What do you think are the pros and cos od Model A and Model B and which do you think we should use to develop an Exceptions Schedule in the REC?

NGN have no preference

Question 6.2: Do you agree that the theft of gas and electricity provisions should be moved to the REC?

As the provisions are currently within SPAA for gas, a transfer to REC in its current form would be efficient.

Question 6.3: Do you agree that the REC Manager should undertake the (re)procurement of any services due to commence at or after REC v2.0 implementation?

The REC Manager role is more significant than, for example the UNC code administrator. This is in line with the Code Governance Review aspirations and the ability to procure code related services to enable efficient operations of the code should be within their remit.

Question 6.4: Do you support the establishment of an industry-wide data catalogue that all code bodies incorporate by reference into their own codes and collaborate on the maintenance of?

Data consistency could be improved by the establishment of a data catalogue, but it is essential that specific codes have the ability to maintain them in collaboration with other impacted codes and parties.

Question 6.5: Do you think that the REC should have the responsibility of hosting the industry-wide data catalogue?

REC could be used for hosting of the data catalogue, however, not all industry parties will be acceded to the REC. Gas Shippers will need to be consulted on changes to data that may impact them through the UNC arrangements.

Question 6.6: Do you think that an industry-wide data catalogue should be developed for REC v2.0 (to enable REC CSS messages to be incorporated from day 1) or should consolidation be undertaken as part of REC v3.0?

We believe that as long as there is a clear and agreed transition, the timing should be based on ensuring efficiency of the relevant codes.

Question 6.7: Subject to further development, assessment and consultation, would you in principle support aligning the gas and electricity metering codes of practice under common governance?

NGN has no views as we are not a metering party.

Question 6.8: If yes, do you consider that the REC would be a suitable vehicle for such common governance?

N/A

Question 6.9: Do you agree that the SMICoP should be incorporated into an industry code, and if so, do you agree that this should be the REC?

N/A for gas transporters

Chapter Seven
Question 7.1: Do you agree with the five incentivised milestones identified? Do you think any milestone should be given greater importance and therefore a larger proportion of margin placed at risk?

NGN is not in a position to assess the changes to the DCC Licence.

Question 7.2: Do you agree with our proposals for the shape of the margin loss curves. Do you have any suggestions for other margin loss curves which may better incentivise DCC to achieve its milestones in a timely manner while encouraging quality?

NGN is not in a position to assess the changes to the DCC Licence.

Question 7.3: Do you agree with our proposal for a potential recovery mechanism? Please give reasons. What types of criteria could be considered for demonstrating clear, transparent communication and what portion of lost margin should be available to be recovered?

NGN is not in a position to assess the changes to the DCC Licence.

Question 7.4: Do you agree with our proposals for a discretionary reward where it can be demonstrated that DCC has gone above and beyond established requirements for REL Address matching? Please give reasons.

NGN is not in a position to assess the changes to the DCC Licence.

Chapter Eight
Question 8.1: Do you agree with the proposed collaborative approach to consultation and modification report production?

NGN is satisfied that the proposed approach is reasonable and inclusive for all impacted parties.

Question 8.2: Would you in principle support REC v3.0 code consolidation being progressed as a SCR separate to, but run in parallel with, the Switching Programme SCR?

NGN is supportive of this as it would ensure that Ofgem have oversight of the complete suite of consequential changes and an ability to ensure that these will meet the longer term strategic direction of the REC. The SCR route would also allow for improved control of the raising of modifications that may not align with REC v3.0 and the consequential changes to other codes that result from this transition.