

To: Anna Stacey, Consumers & Markets, Ofgem, 10 South Colonnade, London, E14 4PU
(half-hourlysettlement@ofgem.gov.uk)

Dear Anna,

RE: CONSULTATION ON SUPPLIER AGENT FUNCTIONS PROPOSED APPROACH

Thank-you for your time on 19 November. AIMDA felt the meeting was constructive and we now better understand Ofgem's proposed position.

However, we still believe that Ofgem have not evidenced a market failure that warrants intervention nor undertaken sufficient comparative analysis to support the hypothesis that a central DA solution better delivers the desired outcomes, or greater benefits, than the existing competitive model.

You invited AIMDA to provide additional information to support our arguments, which we provide below. We also explore a potential alternative to centralisation using distributed ledger technology that is more positively aligned with Ofgem's assessment principles and will allow competition in DA to continue.

We are grateful for the opportunity to further express our views on the consultation and hope that this submission is helpful in progressing Ofgem's consideration of this matter.

If you require any further information or wish to discuss this response, please contact AIMDA Chairman – Peter Olsen on 07591200805 or peterolsen@energyassets.co.uk.

Yours faithfully,

Peter Olsen
Chair - AIMDA

Assertions that there “may well be” a case for further centralisation are offered without evidence. AIMDA would expect any decision for centralising an existing competitive service to be accompanied by an evidenced market failure problem and a quantified business case that demonstrates the benefits of centralisation outweigh the costs of reducing competition as well as a consideration of alternative options.

However, Ofgem have only presented a hypothesis and not shown that the current competitive DA model is an impediment to MHHS nor provided an assessment that the costs of creating and managing an extended central system is more efficient than the status quo. Similarly, no analysis of options outside the binary choice between the status quo and centralisation has been undertaken. One such alternative is distributed ledger technology, which we explore below. Without a quantified business case, we fail to understand how a decision on centralising DA can be made. Consequently, Ofgem’s approach in delaying assessment until after a decision is made appears counter-intuitive and has prejudiced proceedings.

Ofgem alluded to some activities being transferred to DC role, leaving only “adding numbers up” being performed by DAs / central systems. AIMDA struggle to understand what DA activities could be transferred to the DC role. DA validation is to identify anomalies in the data it receives from the DC and so must be performed by the DA. This means that there is a greater number of functions to transfer than Ofgem appreciate, which in practice means significant ramping up of central systems and investment. Again, this highlights the need for proper economic assessment of the costs and benefits to centralisation.

Centralisation of DA will undermine existing business models. AIMDA members are concerned that by removing the DA function from their operations it may have a detrimental impact on our ability or willingness to continue supplying MOP or DC services.

Given that we cannot discuss commercial models in detail we cannot provide too much detail in a communication from AIMDA. However, some members have expressed concern that services are bundled and therefore unbundling them will have several potential effects.

- i. There will be an enormous amount of work required to realign tens of thousands of contracts with end customers.
- ii. Analysis will have to be undertaken to work out what impact this has on the commercial offering. Customers will have their own view as to what that should be.
- iii. Either the DA function is deemed of little value in which case there will be little change to customers costs and they will face increased costs because of the additional charges associated with the DA functions being performed by the central body. Alternatively, the DA function maybe considered valuable in which case removing it makes what’s left of little value and therefore potentially unviable. The outcome is difficult to predict and could be different for each AIMDA member dependent on their commercial model and the views of their customers.

- iv. Even if we were able to increase the prices on the other elements of the bundled services, we would need to be able justify that to our customers. We have commented elsewhere on why we do not think the DA function can be moved into the DC function and thus increase the value of that.
- v. If there is a reduction in number of parties prepared to provide MOP and DC services, then there is a risk that having quite rightly said that DC services should not be centralised this is brought about by lack of competition in the remaining market.

In some cases, AIMDA members are providing value add services on the back of the DA function albeit to a limited number of customers. However, those services could be offered to other customers and would demonstrate that innovation still exists in this market place.

DA alongside DC is more efficient. It is no coincidence that the market has naturally evolved to unlock the synergies of providing DA alongside DC. By sharing systems, the DA can view in real-time the details the DC holds regarding their appointment and a metering system's settlement attributes, as provided by the supplier. This means the DA can proactively identify the cause of an exception without external communication and allows for greater automation of exception management, in turn reducing the total number of exceptions. Decoupling this could cause an increase in the number of exceptions as a central DA will first have to communicate externally with the appointed DC to understand what view they hold and how/if it differs from that of SMRS. Similarly, time and cost efficiencies are achieved by not having to send data externally between the DC and DA. In a centralised model, both would be lost.

Ofgem provides no assessment of the risks associated with increased central services. This is a fundamental piece of analysis required to justify moving to a centralised DA model. Having market-wide disaggregated data in one place is less resilient to cyber-attack and poses a risk to settlement. Governance and management of a central entity will be challenging and involve additional costs for Ofgem. In the absence of competitive pressure there will be little incentive on a central provider to ensure value for money is achieved in delivery of their service. Equally, appropriate controls must be in place to prevent unnecessary expansion of scope that could further impinge upon existing business models and consumer benefits conferred by a competitive model.

Use of distributed ledger technology to support MHHS and competitive Data Aggregation. AIMDA believe that there is an alternative to centralising data aggregation that would continue to allow the competitive provision of aggregation services whilst providing the benefits of making data openly available to other market participants in the energy services supply chain.

AIMDA's understanding that the primary reason for Ofgem's stated preference of centralisation is that the creation of central data store of validated half-hourly data creates a platform for future innovation in settlement and other services. AIMDA's belief is that this same platform can be created without the need for centralisation by using distributed ledger technology, which would in turn, enable the competitive delivery of data aggregation services to continue.

Distributed ledger technology is advocated by the UK Government. The UK Government Chief Scientific Adviser has published a report "Distributed Ledger Technology: beyond block chain" which is a useful reference point as it explores this new technology. The report describes the technology as:

"A distributed ledger is essentially an asset database that can be shared across a network of multiple sites, geographies or institutions. All participants within a network can have their own identical copy of the ledger. Any changes to the ledger are reflected in all copies in minutes, or in some cases, seconds. The security and accuracy of the assets stored in the ledger are maintained cryptographically using 'keys' and signatures to control who can do what within the shared ledger. Entries can also be updated by one, some or all of the participants, according to rules agreed by the network."

It therefore follows that a distributed ledger could be created, openly shared across the industry, containing validated half-hourly data. Data Processors would update the ledger as new data became available. That data would quickly become available to all parties with a legitimate interest. One such interest would be the competitive data aggregator service, which would perform aggregation on the published half-hourly data and forward the aggregated data files to settlement as is currently the case.

The government report goes on to summarise the advantages of the distributed ledger technology: *"Existing methods of data management, especially of personal data, typically involve large legacy IT systems located within a single institution. To these are added an array of networking and messaging systems to communicate with the outside world, which adds cost and complexity. Highly centralised systems present a high cost single point of failure. They may be vulnerable to cyber-attack and the data is often out of sync, out of date or simply inaccurate.*

"In contrast, distributed ledgers are inherently harder to attack because instead of a single database, there are multiple shared copies of the same database, so a cyber-attack would have to attack all the copies simultaneously to be successful. The technology is also resistant to unauthorised change or malicious tampering, in that the participants in the network will immediately spot a change to one part of the ledger. Added to this, the methods by which information is secured and updated mean that participants can share data and be confident that all copies of the ledger at any one time match each other."

All of these advantages are relevant to the situation being considered here and AIMDA believe that this is an opportunity to not only preserve competition, but also to create a solution that is better than the one being proposed from a security, resilience and openness perspective.