

Dear Anna,

**Competition concerns regarding Ofgem's proposals on Data Aggregation (DA) under its work on Market-Wide Half Hourly Settlement (MHHS)**

We refer to the "Supplier agent functions – proposed approach" consultation paper published on 17 September 2018

We understand that Ofgem are due to publish their decision on Supplier Agent functions under MHHS in Winter 2018/19, although we have not been advised of a more precise intended date for publication.

The purpose of this letter is to highlight concerns around the proposal to transfer the DA function to central systems and the consultation process. The proposal – should it be advanced - will create an unnecessary monopoly and cause significant distortions to competition, and will do so without achieving any clear countervailing benefits for customers. These are concerns that we have highlighted in meetings with you and your colleagues, but we want to put them to you in writing so they are clearly understood as we believe that this calls into question the legality of this aspect of the proposals.

We outline these concerns below, provide an alternative solution that mitigates those concerns and invite a meeting with Ofgem to discuss further.

We hope this is well received and productive in your considerations of this matter and look forward to continued engagement with Ofgem.

**Providing Elexon with access to market-wide disaggregated HH data confers an unmatched advantage.** At a meeting on 19 November it was put forward that the role of the DA has little value beyond “adding numbers up” and that there is no reason why it should not be performed within central systems. We do not of course agree. But it is not apparent that Ofgem have fully considered the negative impacts this approach would have on competition. Examining the link between the DWG’s preferred Target Operating Model (TOM) and Elexon’s planned Architecture for their Foundation Programme upgrade demonstrates that there would be such an impact. Both are reproduced in the appendix.

In the DWG’s preferred TOM, Aggregation is shown as an identifiable and separate service within BSC Central Systems. In order to perform its functions, “SP-level data by metering system” is fed into this service by the Processing service. Thus, Elexon will hold a store of validated, market-wide, disaggregated HH data. This acts as a platform to enable the provision of much wider services than “adding numbers up”. The Architecture diagram illustrates this. All of the services and capabilities in the “Half Hourly Platform” (shaded in purple) are enabled by having access to this data.

Thus, under the minded-to proposal, Elexon would be granted an unmatched advantage in being able to offer value-added services outside of core settlement to the entire market.. This will distort competition and represents an extension to an existing central service that is not proportionate or objectively justified.

**The proposal to centralise the DA function is disproportionate and not objectively justified.** In line with good regulatory practice, any decision to centralise services in a market that is served by existing competing providers must be based on a market failure problem and accompanied by clear evidence. In this case, a regulatory impact analysis should include a quantified business case that demonstrates the benefits of centralisation outweigh the costs of reducing competition. The impact analysis should also consider alternative options.

It is not clear to us what regulatory impact analysis Ofgem has undertaken on the proposals. As far as we can see, Ofgem has only presented a hypothesis and not gone on to show 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.

From our understanding, the objective behind the proposal to centralise DA is to provide flexibility in implementing future changes to settlement. A more proportionate means to achieve this using the existing competitive model is to leverage emerging technology such as a distributed ledger. This technology is real and has been deployed in several sectors.

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 cannot provide a coherent basis for proceeding.

**A flawed consultation process has led to a prejudiced outcome.** Although Ofgem stated from the beginning that centralisation of DA on its own was an option, the framing of questions in the RFI (August 2017) and analysis in the Working Paper (March 2018) treated the DC and DA roles together.

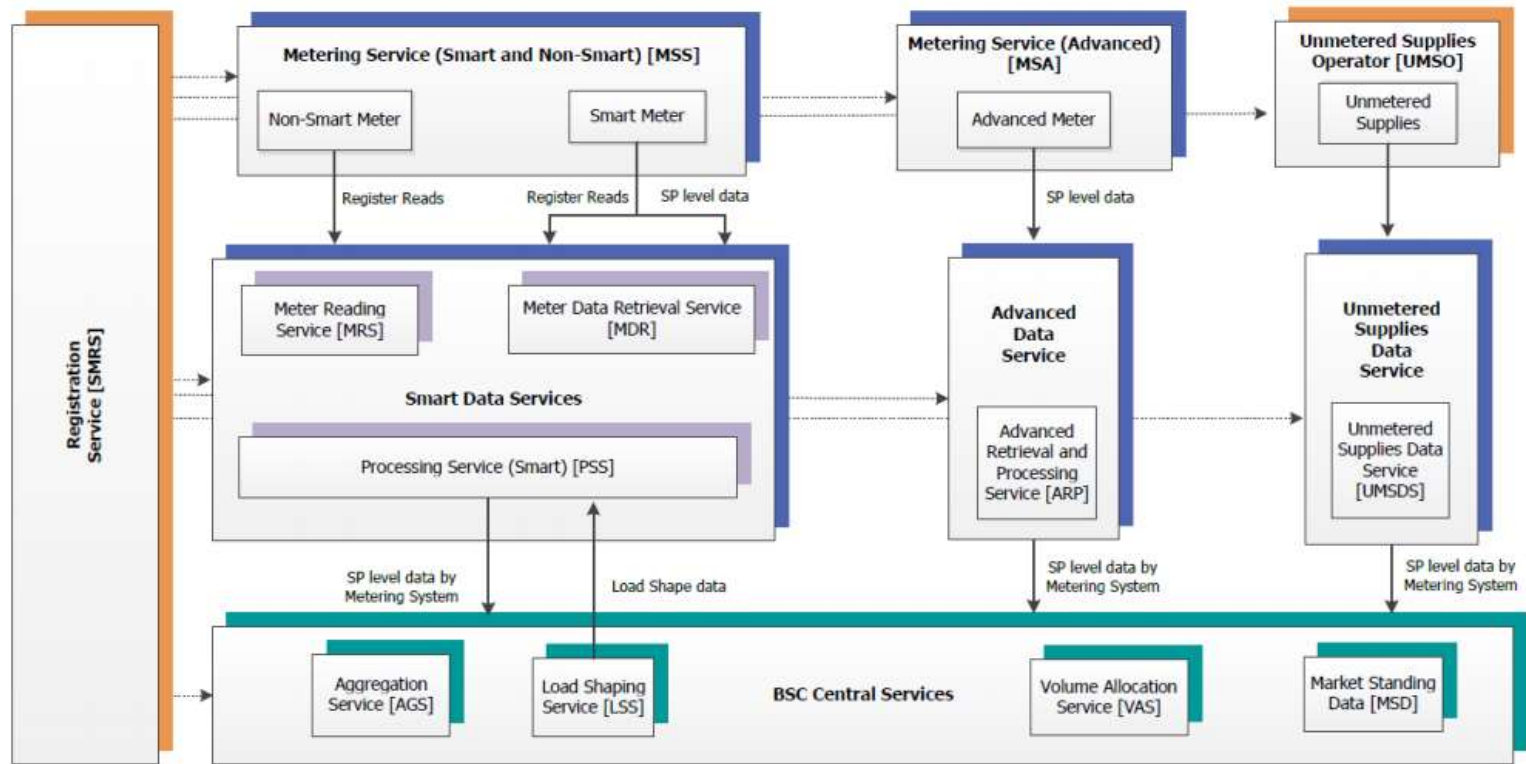
Accordingly, responses were submitted on the assumption that they were being assessed as a package. As a result, there is no traceable logic throughout the consultation process that culminates in the proposed position on DA (September 2018), it simply appears without supporting analysis or assessment. This has made it difficult for stakeholders to understand the objectives behind Ofgem's proposals and to respond effectively. Moreover, labelling this as a detailed design principle for consideration by the DWG, which is chaired by Elexon, which stands to benefit from the proposal, has effectively removed it from the consultation process and must be taken to have prejudiced the outcome. This is a significant flaw in the process that needs to be remedied.

In summary, Ofgem's proposals entail the creation of an expanded monopoly that is disproportionate and without objective justification. There will be significant negative consequences for supplier agents who will not be able to compete with Elexon in the provision of value-added services due to the unmatched advantage it will hold as a consequence of performing the DA role with a central store of market-wide HH data. This lack of competition will diminish the incentives faced in a competitive market for value-added services provided to current and future customers. Ultimately this could result in market exit and a reduction in competition in associated roles that Ofgem have rightly decided should remain competitive, DC and MOP.

We continue to believe that the existing competitive model can deliver a more proportionate solution that achieves the objective of providing flexibility in implementing future changes to settlement whilst mitigating these harmful, unintended consequences.

We welcome the opportunity to discuss this further with Ofgem.

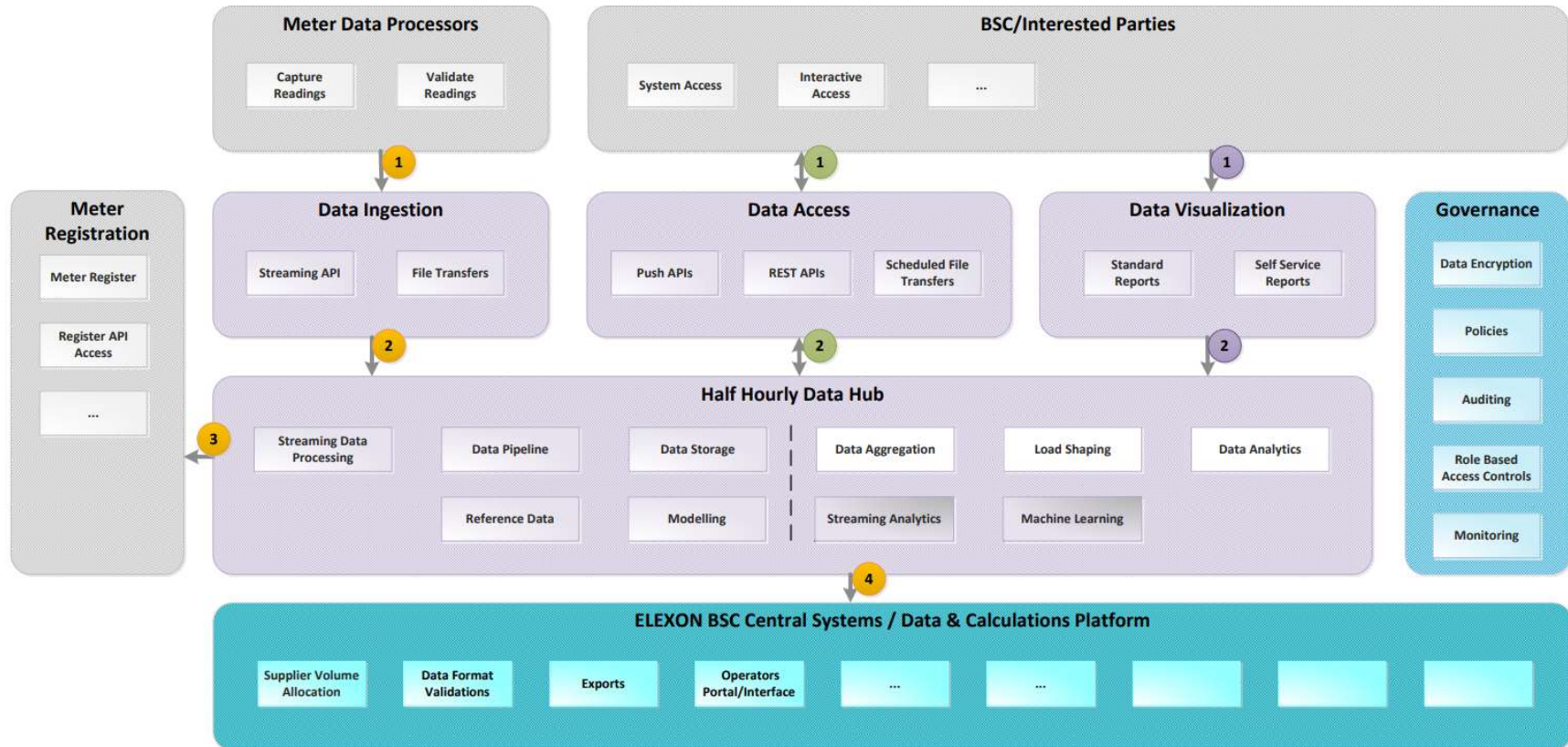
**Appendix A: DWG's Preferred TOM**



Key to shadows

- Competitively Procured Service/s
- Natural Monopoly Service
- BSC Central Service

## Appendix B: Architecture for Elexon's Foundation Programme



**Legend:**

