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Dear Anna,

RE: CONSULTATION ON SUPPLIER AGENT FUNCTIONS PROPOSED APPROACH

We write to you today in response to your consultation published in September 2018 on your proposed approach to Supplier agent functions.

SMS is an accredited non half hourly and half hourly meter operator, data collector and data aggregator and operate metering and data services on over 2m gas and electricity supply points in the UK to both business consumers direct as well as non-domestic and domestic energy suppliers to support their own customers' requirements.

As stated in our responses to previous consultations, SMS do not agree that consolidation will be beneficial to end user, instead we firmly believe that ensuring competition in metering markets drives innovation, reduces costs and increases end user benefits. Therefore, it is essential to SMS and our customers that DA functions remain competitive.

We are grateful for the opportunity to express our views on the consultation. Accordingly please find below our formal written response to the consultation for your review.

In the meantime, should you require any further information from SMS in support of these responses, please do not hesitate to contact me.

Yours faithfully,

Kristina Leary
Settlements Change Manager

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

We agree with your unchanged thinking from March 2018 that Data Quality should improve with Smart Metering and that from evidence seen a central agent would not provide further improvements.

We also agree with your unchanged thinking from March 2018 that the importance of hand-offs will fall and that a central agent does not impact on the number of hand-offs or any consequent exceptions.

We disagree that settlement performance is not a source of differentiation. Low performance is a trigger for a Supplier to seek other agents. Competitive agents must improve their performance in order to remain in business.

We agree with the statement that economy of scale for a central agent would not be significant and that a competitive model can be supportive of economy of scale; as it was demonstrated with P272 where cost of HH settlement fell due to the increase in volume.

We disagree with the statement that value added services are not dependant on carrying out data collection or data aggregation. There is cost synergy between being an agent and being able to offer tailored services to Suppliers. Value added services should be considered in the light of innovation and new market entrants. Access to the data from meter to settlement is critical in offering value added services. Proximity of DC to DA also allows faster resolution of mismatches and exceptions.

We agree with the statement that Supplier Agents are not a source of delay to Industry changes. We would go further and state as we did previously that Supplier Agents have been instrumental in delivering Industry Changes such as P272.

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

We are fully supportive of Ofgem's proposed position of not including centralisation of agent function in the market wide settlement reform. However, we are opposed to and disappointed by the proposed position taken on Data Aggregation. We expand on that in our response to question 3.

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?

Yes and Yes.

SMS does not support the centralisation of the data aggregation role in any form. Aggregation of data will still be required as an input to the calculations used in the central settlement systems; therefore the work performed by data aggregation agents will continue to exist. Data aggregation will continue to be a separately identifiable set of tasks even after any transfer of the role in to the central settlement systems.

Centralising data aggregation activities has the same issues as any other form of centralisation, and an automatic transfer of these activities to a centralised service provider causes us a number of issues.

We fail to see the link between Central Systems and the introduction of innovation. Since the current arrangements for the Electricity Industry as we know it started in 1998, the Central Systems have never been the source of innovation. Innovation is driven by competition and appropriate governance.

We are of course supportive of Elexon using the latest technology for the Central Systems upgrade to ensure that the service provided by Elexon is cost effective and adapted to the changing Industry after 17 years of using the same systems. Elexon's system upgrade is not an argument in favour of DA centralisation.

We are very disappointed that Ofgem would even consider unilaterally adding DA functions to the Central systems. The fact that Elexon have initiated the Foundation programme is in no way linked to centralisation of DA functions. The statement published by Elexon on their website is as follows: "The Foundation Programme will run from 2018 onwards and aims to remodel and update the BSC central systems so that they can deliver a flexible, scalable and open digital platform for our settlement and balancing services".

We firmly oppose a repeat of the central switching system addition to the DCC Licence with DA functions being added to an unrelated system upgrade by Elexon.

If Ofgem was to go ahead with the centralisation of DA functions, a full and open tender process would have to be completed adhering to the Public Procurement Policy. Its over-riding requirement is that all procurement must be based on value for money, defined as "the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought." This should be achieved through competition, unless there are compelling reasons to the contrary."⁽¹⁾

The value for money aspect is also central to Ofgem as published on its website ⁽²⁾. We cannot see how centralizing DA functions would deliver value for money when several competitive players already provide the service. NHHDA is delivered through a centrally developed system and the change process is more cumbersome than for the HHDA counterparts. All arguments against the centralisation of MOP and DC functions still stand for DA functions. Central systems are less receptive to change, less receptive to customer needs and to managing their issues.

The vast majority of MPANS are appointed to the same agent as DC and DA, as such meter data is typically sent internally. DC agents would be left footing the bill of significantly higher DTN costs in transmitting meter level information to a centralised system.

We refute the argument that the technology was not present 20 years ago to centralise DA functions. Technology was present, the Authority's drive at the time, was to move away from centralisation and monopoly. It was the absolute driver for the 1998 Electricity Programme as the regional monopolies had shown their serious limitations in terms of performance and control. We do not understand why Ofgem, in the past few years, keep coming back to centralisation as a solution. Centralisation is unlikely to provide more control; on the contrary, the monopoly tends to take away any control the Authority would like to have.

During the DCC development, the fact that all data would be held in one place was rightly identified as too high a risk. This resulted in the DCC only passing the data rather than holding it. The same risk would be present in a centralised system carrying out DA and Settlement. There is no justification that would make this risk acceptable.

DA delivers a critical service for Supplier. It is an additional quality/validation check for Settlement Data. Suppliers do use DA data to check Settlement bills. It is paramount that this ability to independently check remains.

Finally, implementing a central DA system will incur significant implementation costs. SMS employ staff specifically to service the DA function, the security of this employment must be considered and SMS cannot see where these impacts have been considered as part of Ofgem's decision making process.

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

We agree with the consideration of Ofgem's proposed position against its assessment principle which are: 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.

However, we do not agree with the centralisation of DA in the Central Systems. That specific consideration was not considered against Ofgem's assessment principles and it is a major gap in this consultation. It would have shown that all the arguments for keeping MOP and DC functions as competitive agents apply to the DA functions as well.

Sources

- (1) <https://www.gov.uk/guidance/public-sector-procurement-policy>
- (2) <https://www.ofgem.gov.uk/about-us/who-we-are>