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Dear Rachel,

Switching Programme and Retail Code Consolidation: Proposed changes to licences and industry codes

Thank you for the opportunity to respond to this consultation on proposed changes to licences and industry codes in support of the switching programme and retail code consolidation.

ScottishPower supports Ofgem's programme of reforms to deliver faster more reliable switching, which we see as central to improving customer engagement and competition in the retail energy market. At a general level, we agree that the customer has to be at the heart of every decision and that RECCo and the REC Manager need to be set up and run in a way that is open, transparent and cost effective. We also agree that a key driver has to be reducing the overall number of codes.

Our answers to consultation questions 1.3 to 1.5 and 4.4 to 4.4, for which Ofgem has requested an early response, are in Annex 1 attached. We will respond to the remaining questions by the later deadline of 9 September.

Should you wish to discuss any of these points further then please do not hesitate to contact me.

Yours sincerely,



Richard Sweet
Head of Regulatory Policy

SWITCHING PROGRAMME AND RETAIL CODE CONSOLIDATION: PROPOSED CHANGES TO LICENCES AND INDUSTRY CODES - SCOTTISHPOWER RESPONSE

Chapter 1: REC Governance Arrangements

1.3: Do you consider that the methodology as set out above is appropriate?

Ofgem sets out (paragraph 1.17) an approach to defining the functions and services of REC Manager in which the first step is development of a draft schedule setting out the anticipated scope of services to be delivered through the REC (whether by the REC Manager or other service providers), with a view to that document evolving along with the development of the code itself, informing the procurement process, and in due course forming part of the REC itself. Rather than being prescriptive in determining how each service area is delivered, the RECCo Board is instead proposing to set out a methodology for each service area that will enable potential service providers to offer flexible, innovative and best in class services.

We agree that having the RECCo document the methodology should allow both service providers and REC parties to review and challenge throughout the procurement process. We also agree, in principle, that the services so far identified represent the key areas that the REC Manager should be responsible for. However, the requirements at this time remain at a very high level. We will continue to review and comment as matters progress and become clearer.

1.4: Do you have any comments on the scope of services?

We agree that the services that have so far been identified are appropriate. However, as stated in our response to the July 2018 consultation, we do not believe there is any need for the REC Manager to be able to raise change proposals independently, as there will always be parties prepared to support a change. Indeed, if the REC Manager were to raise a change proposal without support from parties or consumer bodies, and which resulted in additional work for the REC Manager, this could give rise to a perceived conflict of interest.

An important consideration must be avoiding duplication of effort, particularly with regard to (but not limited to) Cross Code Collaboration, in relation not just to the running down of MRA and SPAA but also in the longer term.

Ofgem refers (paragraph 1.9) to considering the experience of Elexon and Xoserve. We would note that Xoserve is not a true code secretariat and as such any experience may not be directly relevant to the REC.

1.5: Do you agree with our outline proposals on the set-up of the REC Manager?

Yes, we agree at a high level with the proposed set up for the REC Manager.

Ofgem does not comment on whether the REC Manager would be required to be a 'not for profit' entity. If Ofgem is not intending to make this a requirement, this would be a departure from other industry codes (eg SPAA, MRA, DCUSA) and may not be consistent with the requirement to place the customer at the heart of industry codes. We realise that a 'not for profit' requirement may constrain the commercial aspirations of the REC Manager, but in our

experience such organisations better serve their primary purpose when they are not distracted by external ‘growth opportunities’.

Ofgem notes (paragraph 1.20) that the RECCo may opt to provide some functions in-house. We assume this refers to the initial set up with Ofgem support and not to the longer term. In general, provision of services should be done by the REC Manager rather than RECCo, to allow the open and transparent operation of code provision.

Ofgem also states (paragraph 1.20) that the REC Manager functions may be split into a number of contracts with one or more service providers. While we agree this could be more cost effective in the short term, it would need to be clearly documented with divisions of responsibility not open to interpretation or conflict. This also places an administrative burden on RECCo that could be difficult to manage, if the financial management of the code is covered by one provider but services carried out by a competitor.

Chapter 4: Retail Code Consolidation: SCR Scope, Process and Proposals

Question 4.3: Which option outlined above do you think is best suited to govern MPAS (as defined above) once the MRA has closed, and why?

Ofgem identifies three options for future MPAS governance. Once the MRA has closed, it suggests that MPAS governance could transition to DCUSA, BSC or REC.

We do not have a strong preference amongst these options. As Ofgem notes (paragraph 4.21), the MPAS provisions within the MRA dictate how DNOs manage a core part of their business and it is therefore essential that DNOs have meaningful influence over these provisions, and are able to engage in the change process. This suggests that DCUSA may be the best option, unless the necessary changes can be made to BSC or REC to give DNOs sufficient influence.

A second important consideration is that the governance is not fragmented and unnecessarily complex. As such, noting the arguments around market harmonisation, it would seem sensible to either bring UK-Link governance within the REC (and place both UK-Link and MPAS governance there) or task the BSC with the governance of MPAS. As there appears to be no desire to see the former, this would appear to favour the BSC option.

We note there is no mention of the link between MPAS and ECOES, which is key to the provision of MIS and, therefore, needs to be factored into any decision making. We would also highlight that any final decision needs also to be based on considerations of future costs/savings and minimising the risk of duplication of effort.

Question 4.4: Do you have serious concerns about the suitability of any of the options for the future governance of MPAS, outlined above?

A separate governance by function would effectively be setting up a new industry code. At a time of code consolidation, this (at a high level at least) appears to be further fragmenting the codes.