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bodies, metering agents,
consumers and their
representatives, and other
interested parties

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Date: 29 November 2019

Dear colleague,

Retail Code Consolidation Significant Code Review – Launch Statement

This letter launches a Significant Code Review (SCR)¹ with the objective of achieving retail code consolidation. This will be achieved to a large extent by the replacement of the Master Registration Agreement (MRA) in electricity and the Supply Point Administration Agreement (SPAA) in gas, with the new dual fuel Retail Energy Code (REC). It will also rationalise a number of codes of practice (see section on Scope below). We consulted on these plans in our June 2019 consultation document "Switching Programme and Retail Code Consolidation: Proposed changes to licences and industry codes²."

Policy Objectives and Context

Originally the REC was created to make faster, more reliable switching happen and to harmonise, as far as is sensible, the provisions for switching in gas and electricity. The creation of the REC also presents an opportunity to consolidate the number of codes in the retail energy space and to create code governance arrangements that drive innovation and positive outcomes for consumers.

¹ The Significant Code Review (SCR) process provides a tool for Ofgem to initiate wide ranging and holistic change and to implement reform to a code based issue.

² <https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/smarter-markets-programme/switching-programme>

We are setting up governance arrangements, including a change management approach and organisational structures, for the REC that will allow it to be more flexible and responsive in decision-making, more open to innovation and challenge from any party, and governed by a more diverse set of interests than is the case in the currently existing code governance arrangements.

Reforming code governance and simplifying the code landscape, with the aim of acting in the interest of consumers, promoting competition and driving innovation, have long been policy objectives for Government and Ofgem.

In its 2016 review of the energy market³, the CMA found that codes and their governance limit innovation and cause energy markets to fail to keep pace with regulatory developments and other policy objectives. In particular, the CMA was concerned that this situation limits pro-competitive change. The underlying features of the problem were identified as: parties' conflicting interests and/or limited incentives to promote and deliver policy changes, and Ofgem's insufficient ability to influence the development and implementation phases of a code modification process.

In November 2017, Ofgem published a Call for Evidence on Future Supply Market Arrangements⁴ which also showed that some stakeholders are concerned that code arrangements are a significant barrier to innovation⁵. They considered that the complexity and distributed ownership of the different codes can make it difficult for participants to identify who regulates what in the market. It can be particularly difficult for new entrants and innovators to navigate the code landscape, and those with unique propositions can face significant costs in order to understand how they could comply with a number of codes. To tackle the issue of code complexity, some stakeholders indicated support for the proposed creation of the REC. In addition, some stakeholders stated that they wanted the REC to reduce the overall number of codes and simplify the regulatory framework in the retail market. Some stakeholders also considered that ensuring code governance arrangements allow participants to exercise an equal and balanced level of influence over changes to codes could enable more innovation in the market.

In late 2018, Government and Ofgem launched a joint comprehensive review of the codes which govern our energy system⁶, noting that many in the industry are critical of the existing system of codes and code governance, pointing out that it is:

- **Slow** to take decisions, with even simple decisions taking many years.
- **Reactive** to existing problems, rather than forward-looking in preparing the energy system for future changes.
- **Overly complex**, with the entirety of the codes estimated to run to over 10,000 pages and weighing 50kg. This is a barrier to new entrants and to innovation.
- **Resource-intensive**, leading to a lack of representation from smaller and/or newer parties.
- **Lacking coordination** between the different code bodies.

³ <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf> (see page 1289ff.)

⁴ <https://www.ofgem.gov.uk/publications-and-updates/future-supply-market-arrangements-call-evidence>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/future-supply-market-arrangements-response-our-call-evidence>

⁶ <https://www.ofgem.gov.uk/publications-and-updates/energy-codes-review>

- **Fragmented**, with a large number of code panels and bodies which provides for a complex institutional landscape, making it difficult to take forward systemic changes to the rules.

The aim of the review is to consider options for improving the existing arrangements, including scope for fundamental reform.

While this Retail Code Consolidation (RCC) SCR will not address all these issues and only covers a small subset of industry codes, we are taking the opportunity, created by the introduction of the REC, to reduce the number of codes and to bring the arrangements previously managed through existing codes under a new governance approach that addresses many of the issues identified above. The joint Government/Ofgem review of codes is still developing its conclusions. While it does so, we are staying close to it and developing the REC in a way that makes it a stepping stone – and an exemplar – in the direction of its wider and potentially more far-reaching conclusions.

Why Are We Launching a Significant Code Review?

Launching an SCR allows us to take the lead on these matters while at the same time working with industry and other stakeholders, including consumer representatives. The SCR process is designed to facilitate the delivery of complex reforms and significant changes to the industry codes. This will allow us to undertake a holistic review of code-based issues.

Merging the MRA and SPAA into the REC (and placing some of their provisions elsewhere where appropriate), while harmonising their provisions, and achieving wider rationalisation of codes of practice, will require the co-ordination of a number of interlinked modifications to several codes. We considered relying on piecemeal modifications to codes to achieve the rationalisation. However, we take the view, also widely put to us by code parties, that this process would be protracted, with no certainty of an orderly or timely outcome. It would also be harder to create the value and efficiency that we see in pursuing code consolidation developments in tandem with the consolidated drafting of harmonised provisions bringing together requirements from the SPAA and MRA for faster, more reliable switching.

Ofgem’s 2016 Code Governance Review (phase 3)⁷ created three pathways for SCRs with increasing levels of Ofgem involvement in the modification process⁸. The RCC SCR will be an Ofgem-led end-to-end process (pathway 3).

A number of considerations lead us to think that this approach is appropriate and proportionate:

- The number of codes and relevant licensees potentially affected by the RCC SCR means that strong end-to-end co-ordination is more likely to lead to a successful outcome.

⁷ https://www.ofgem.gov.uk/system/files/docs/2016/03/code_governance_review_phase_3_final_proposals_2.pdf

⁸ The three pathways are:

Pathway 1: Ofgem directs licensee(s) to raise modification proposal(s), which then follow the standard industry modification processes;

Pathway 2: Ofgem raises modification proposal(s), which then follow the standard industry modification processes; and

Pathway 3: Ofgem leads an end-to-end process to develop code modification(s).

- Ofgem taking a lead role in co-ordinating the code modifications, also allows Ofgem to co-ordinate the code changes with the licence changes required.
- The interaction between the Switching SCR and the RCC SCR requires two sets of reforms to be delivered across multiple codes in quick succession (see further detail below). Ofgem's ongoing leadership of the RCC SCR will ensure that it continues to operate effectively alongside the Switching Programme SCR and will facilitate synergies in their development.
- Using the industry processes for code modifications in each of the affected codes would lead to the fragmentation of ownership and responsibility for the delivery of the revised drafting, imposing greater risk and complexity to the programme.

We asked specific questions about this SCR in our June 2019 consultation and respondents have been strongly supportive of this approach whereby Ofgem leads the end-to-end process for the SCR (see the summary of responses at Appendix 1).

Scope

The intended scope for the RCC SCR is as follows:

- All the provisions in the MRA and SPAA, being placed in either the REC or another code, and remaining parts that need to be closed down (eg. parts of the codes that relate purely to the governance of the code);
- The necessary changes to other codes to facilitate better cross-code change management;
- The necessary changes to transfer provisions covering MPAS and its governance to the REC and a number of other codes, including BSC and DCUSA (see the subsidiary document on proposed arrangements for MPAS provisions);
- The necessary changes to implement the learnings from the Theft Steering Group and rationalise the existing theft provisions currently in SPAA and DCUSA into the REC;
- The changes required to move provisions for the Green Deal into REC from MRA and GDAA (we will work closely with Government to ensure that any changes required to the GDAA take place in line with this SCR), and to ensure governance that appropriately involves Green Deal parties;
- The changes required to transfer the gas agent appointment provisions and electricity provisions related to MEM appointment and MAP notifications to the REC from SPAA and RGMA, along with relevant metering MDD from SPAA and BSC;
- Changes required to rationalise metering codes of practice in the REC;

- Changes to bring SMICoP provisions into the REC; and
- Changes to bring the Priority Services Register into the REC (currently provisions are governed by the SPAA, MRA and UNC).

For the avoidance of doubt, the driver of the RCC SCR is to consolidate code provisions and improve the governance of existing industry arrangements, not to make policy and process changes, however we may take the opportunity to make improvements to code provisions. Where we do so, this would follow consultation with stakeholders.

Interaction Between the Switching SCR and the RCC SCR, Transition Approach and Timelines

Our June 2019 consultation set out the proposal to launch the RCC SCR by the end of 2019 alongside details of the approach to implementing changes to the REC and other industry codes via the RCC and Switching SCRs.

We suggested within the consultation that both the RCC and Switching SCRs would be implemented in April 2021, with the new switching provisions lying dormant until the Central Switching Service (CSS) goes live. Since publication of the June consultation, further work has been undertaken to understand the scope of both SCRs and the interaction between them. Appendix 2 to this document sets out the SPAA and MRA transition approach.

In line with this approach, we have asked code bodies to update the consequential code changes for consultation next spring in line with the transitional approach. We have asked code administrators and Xoserve to develop a plan for developing these changes so that we can agree that they meet the programme requirements and understand what risks are involved that may need mitigation and we can track progress to completion.

The Switching SCR and this new RCC SCR are closely linked and will take place to similar timelines. We envisage the following plan for the SCRs:

	Switching SCR	RCC SCR
Q1 2020	Maintenance period.	
Q2 2020		Three-month consultation on the consequential code change drafting.
Q3 2020		Maintenance period.
Q4 2020	Ofgem submits modification proposals to relevant code panels.	Ofgem submits modification proposals to relevant code panels
Q1 2021	- Early January: Panel recommendation to Ofgem;	- Early January: Panel recommendation to Ofgem;

	- Late January: Decision on modification proposals issued; and - SCR complete.	- Late January: Decision on modification proposals issued; and - SCR complete.
Q2 2021	RECV2 implemented with Switching Provisions brought into force later, at go live of systems.	

If you have any questions or comments on this letter, please contact switchingprogramme@ofgem.gov.uk.

Yours sincerely,

Rachel Clark

Director, Retail Systems Transformation

APPENDIX 1 – SUMMARY OF CONSULTATION RESPONSES ON THE RETAIL CODE CONSOLIDATION SCR SCOPE, PROCESS AND PROPOSALS

Questions

Question 4.1: Do you agree that Ofgem should lead an end-to-end process to develop the code modifications to deliver retail code consolidation?

Question 4.2: Do you agree with the proposed scope of the Retail Code Consolidation SCR? Do you think any additional areas should be in scope?

Questions 4.3 and 4.4 are covered in a subsidiary document to this launch statement on the proposed way forward for MPAS provisions.

Question 4.5: Do you agree that the GDAA and Green Deal related provisions in the MRA should transfer to the REC?

Question 4.6: Do you think GDAA parties should accede to the REC, or be engaged through some other means?

Question 4.7: Do you agree that the requirements currently held in SPAA Schedule 22 and the RGMA Baseline related to gas meter agent appointments and MDD should be mandatory for domestic and non-domestic suppliers? If not, why not?

Question 4.8: Do you agree with our preferred option for governance of agent appointments and MDD, outlined as option 3 above?

Question 4.9: Do you support our proposal for consolidating the metering CoPs into the REC?

Question 4.10: Do you think MEMs should be parties to the REC?

Question 4.11: Do you think changes to the metering Schedule(s) of the REC should be progressed through the Change Panel only, or should there be an additional MEM Panel?

Question 4.12: Which of the requirements within SMICoP, if any, should extend beyond the initial installation of the smart metering system?

Question 4.13: Which of the requirements within SMICoP, if any, should apply to installation of non-smart metering systems and other site visits required to carry out metering related work?

Question 4.14: What are your views on our proposals for the governance and assurance of the SMICoP provisions once migrated to the REC?

Question 4.15: Do you agree with our proposal for incorporating PSR provisions in the REC?

Summary of Responses

- 1.1. For further detail on the proposals underlying these questions, refer to Chapter 4 of the June 2019 consultation document.

Question 4.1: Do you agree that Ofgem should lead an end-to-end process to develop the code modifications to deliver retail code consolidation?

- 1.2. All respondents to this question agreed it is necessary for Ofgem to deliver the Retail Code Consolidation SCR using pathway 3 to lead the end-to-end development of code modifications, given the number of codes and relevant licensees affected.
- 1.3. Way forward: Ofgem will lead an end-to-end process to develop the necessary code modifications to implement the Retail Code Consolidation SCR.

Question 4.2: Do you agree with the proposed scope of the Retail Code Consolidation SCR? Do you think any additional areas should be in scope?

- 1.4. All respondents agreed with the proposed scope for the Retail Code Consolidation SCR. Two respondents suggested that additionally, message transmission services/Data Transfer Service.
- 1.5. Way forward: The Scope of the SCR will be as set out in this launch statement.

Question 4.5: Do you agree that the GDAA and Green Deal related provisions in the MRA should transfer to the REC?

Question 4.6: Do you think GDAA parties should accede to the REC, or be engaged through some other means?

- 1.6. The majority of respondents were supportive of transferring the Green Deal provisions in the MRA and the GDAA to governance within the REC, agreeing that there are several duplications in current governance and opportunity for efficiencies.
- 1.7. Two thirds of respondents were in favour of GDAA parties acceding to the REC, with several responses noting that in the event of accession to the REC, consideration should be given to avoiding undue influence over non-Green Deal provisions, but that this would benefit parties in terms of access to enhance REC change management and performance assurance frameworks.
- 1.8. Way forward: We will proceed on the basis that the GDAA and Green Deal provisions in the MRA will be transferred for governance with in the REC.
- 1.9. We will proceed on basis that GDAA parties will accede to the REC, and will be integral players in the REC provisions that relate to Green Deal matters.

We will give further consideration to the practical implications of non-licencee participation in REC governance and appropriate access to REC change.

Question 4.7: Do you agree that the requirements currently held in SPAA Schedule 22 and the RGMA Baseline related to gas meter agent appointments and MDD should be mandatory for domestic and non-domestic suppliers? If not, why not?

- 1.10. Two thirds of respondents were in favour, and none explicitly opposed, for aligning domestic and non-domestic requirements given they will have equivalent treatment under the switching arrangements.
- 1.11. Several respondents suggested that the RGMA Baseline should be streamlined and better aligned with wider/electricity metering arrangements where appropriate.
- 1.12. Some respondents were unclear why non-domestic was treated differently in gas, given there is no such distinction in electricity.
- 1.13. Way forward: We will proceed on basis that RGMA will form part of REC and review extent to which the baseline is mandatory for each customer/supply point type.

Question 4.8: Do you agree with our preferred option for governance of agent appointments and MDD, outlined as option 3 above?

- 1.14. Strong support (two thirds in favour) for Option 3 (gas and electricity to be housed in REC); only three respondents supported Option 2 (a REC and BSC split).
- 1.15. Some of those with a neutral view sought further detail.
- 1.16. Some emphasised a need to ensure that a shift from BSC to REC would need to keep subsequent BSC procedures whole, possibly requiring meter operators to remain accountable under other codes.
- 1.17. Way forward: We will proceed on the basis of provisions moving to the REC, considering possible procurement of support through the RECCo as part of wider metering consolidation.

Question 4.9: Do you support our proposal for consolidating the metering CoPs into the REC?

Question 4.10: Do you think MEMs should be parties to the REC?

Question 4.11: Do you think changes to the metering Schedule(s) of the REC should be progressed through the Change Panel only, or should there be an additional MEM Panel?

- 1.18. There was no clear support from metering organisations, but stronger support from wider industry. Some noted that this should deliver efficiency gains, but others suggested that consolidation alone would not deliver wider benefits, such as improved data.
- 1.19. There was strong support for MEMs being party to REC. Some respondents recognised that MEMs have an important role to play in consumer facing processes and as such should be accountable and subject to performance assurance. Others recognised that this itself made it appropriate that they should have a voice in REC governance.
- 1.20. Way forward: We will proceed on the basis that metering codes of practice will be subject to REC governance, developing further thinking regarding performance standards that will apply to MEMs.
- 1.21. We will proceed on the basis that MEMs will be integral players in the REC provisions, further considering the practical implications of non-licensee participation in REC governance.

Question 4.12: Which of the requirements within SMICoP, if any, should extend beyond the initial installation of the smart metering system?

Question 4.13: Which of the requirements within SMICoP, if any, should apply to installation of non-smart metering systems and other site visits required to carry out metering related work?

Question 4.14: What are your views on our proposals for the governance and assurance of the SMICoP provisions once migrated to the REC?

- 1.22. There were mixed views on these questions from respondents, some wholly supported the integration of SMICoP and other metering CoPs, some were wholly opposed, and others supported elements such as governance under the REC, but not extending beyond first visit. Those opposed were mostly concerned about extending the scope of provisions related to smart meter installation beyond the way they are framed in SMICoP.
- 1.23. There was general agreement that the SMICoP duplicated some provisions elsewhere and could be rationalised.
- 1.24. Way forward: We will proceed on the basis that SMICoP will come under REC governance, giving further considerations to SMICoP consumer protections and relevance to other on-site visit situations. We note that consolidation *alone* will not result in additional obligations, but retain the option to apply consumer protections in other scenarios where there is a robust case for doing so and where it would be consistent with overall REC consumer outcomes.
- 1.25. We will also explore scope for SMICoP integration with other metering CoPs.

Question 4.15: Do you agree with our proposal for incorporating PSR provisions in the REC?

- 1.26. There was strong support for governing the PSR provisions within the various current codes in the REC. Some support was qualified on the basis that all else would remain equal in terms of licence obligations, etc. and that the consolidation would not interfere with other in-train initiatives.
- 1.27. Way forward: Proceed on the basis that PSR provisions will migrate to REC governance.

APPENDIX 2 – MRA AND SPAA TRANSITION APPROACH

1.1. A review has been undertaken of the SPAA and MRA to ascertain the impact of the RCC SCR. Each SPAA and MRA product has been categorised into one of the following categories:

- Category 1 – existing SPAA and MRA governance provisions that will be redundant when the SPAA and MRA close and will therefore not be included in the RCC or Switching SCR e.g. existing change provisions;
- Category 2 – existing SPAA and MRA provisions that are not switching related and will transition to equivalent REC schedules as part of the RCC SCR e.g. theft, green deal and metering provisions;
- Category 3a – existing SPAA and MRA provisions that have minimal links to switching which will transition into dual fuel REC schedules as part of the RCC SCR, with revised text implemented at CSS go live e.g. Retail Gas Metering Arrangements (RGMA) and prepayment provisions which have sections relating to the switching process; and
- Category 3b – existing SPAA and MRA provisions with strong links to switching which will be copied into SPAA and MRA REC Transition schedules which will be deleted at CSS go live and replaced with new switching schedules e.g. exception processes which will be included in the Consumer Facing Switching and Billing Schedules.

1.2. We are publishing a spreadsheet categorising SPAA and MRA provisions into these 4 types as a subsidiary document to this launch statement.⁹ This spreadsheet also highlights which SCR (Switching or RCC) each of the proposed REC products will be included in. A number of products have been identified for inclusion in both SCRs, where they will be introduced into the REC via the RCC SCR, with minor changes made to the drafting as part of the Switching SCR, to reflect type 3a above.

MRA MAIN BODY

1.3. Particular consideration has been given to the provisions within the main body of the MRA. The impact on the SPAA main body is straight forward as it focuses on SPAA governance arrangements such as the establishment of the SPAA Executive Committee, funding arrangements and the change process. These will all become redundant when the RCC SCR is implemented and therefore the SPAA main body has been classified as a category 1 document with provisions removed as part of the RCC SCR.

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https://www.ofgem.gov.uk/system/files/docs/2019/11/spreadsheet_with_further_information_on_transition_approach_for_mra_and_spaa.xlsx

- 1.4. The impact on the MRA main body is more complicated as it includes provisions relating to the switching arrangements, as well as generic governance provisions. As with SPAA, the MRA governance provisions will be removed at RCC SCR implementation; however, the existing switching provisions will remain in place until CSS go live and will need to transfer to the REC as part of the MRA Transition Schedule.
- 1.5. The specific provisions covered in the MRA main body relate to the existing registration process e.g. the process for establishing the registered supplier linked to a specific metering point and managing subsequent changes of supplier. Delivery of this process utilises the Metering Point Administration Service(s) (MPAS) established by Distribution Network Operators (DNOs) under Standard Licence Condition 18 of the Distribution Licence.
- 1.6. Consideration of the enduring MPAS provisions have concluded that this service should be disaggregated at CSS go live into three distinct services:
- CSS – responsible for the register of registration data e.g. the supplier associated with each metering point and defined in the REC;
 - Supplier Meter Registration Service (SMRS) – responsible for the register of metering point standing data relating to settlement parameters, meter asset data and agent appointments. The proposal is for SMRS to be defined in the BSC; and
 - Electricity Retail Data Service – responsible for sending and receiving information to the CSS and defined in the REC.
- 1.7. There are two options for dealing with the existing MPAS provisions under the RCC SCR. Option 1 transfers the existing MPAS provisions into the REC MRA Transition Schedule unchanged e.g. the existing MPAS provisions will be packaged together and transferred to REC. Option 2 disaggregates the MPAS provisions at RCC implementation, with SMRS provisions taken out and transferred to the BSC, while MPAS provisions relating to the existing registration process are redrafted and included within the REC MRA Transition Schedule until these are superseded at CSS go live.
- 1.8. We believe that option 1 is the most cost-effective approach, enabling minimal change as part of the RCC SCR due to the short-term inclusion in the REC MRA Transition Schedule. We do not believe the additional work required to disaggregate existing MPAS provisions is justified ahead of CSS go live. The spreadsheet published as a subsidiary document to this letter shows the clauses in the MRA main body and whether these will be transferred into the MRA Transition Schedule.

GOVERNANCE OF SPAA AND MRA TRANSITION SCHEDULES

- 1.9. The SPAA and MRA Transition Schedules will form part of the overall REC framework and will therefore be subject to REC governance, for example change management and performance assurance provisions. Due to the links between the provisions within the transition schedules and the enduring CSS arrangements, it is assumed that changes will only be made to the provisions within the transition schedules where they are expected to endure past CSS go-live. If such changes are made, then consequential changes to the Switching SCR drafting will also therefore be required to reflect approved changes. Changes to the transitional schedules relating to provisions which will become redundant at CSS go-live should only be progressed in exceptional circumstances.
- 1.10. The SPAA and MRA Transition Schedules will include the following types of provision:
- Exception processes e.g. resolution of erroneous transfers, which will transfer into the Consumer Facing Switching and Billing Problems Schedule at CSS go live. The content of the existing arrangements will not change significantly at CSS go live apart from changes to streamline and harmonise the arrangements
 - Existing change of supplier arrangements covering registration activities (MRA only), objections and Notification of Old Supplier Information (NOSI) provisions which will be included within the Registration Services Schedule at CSS go live either in their current form or redrafted to reflect the CSS provisions
 - Existing MPAS provisions (MRA only) which will be disaggregated at CSS go-live as explained above

THE MRA AND SPAA SCHEDULES

- 1.11. We are publishing the proposed MRA and SPAA schedules as subsidiary documents to this letter¹⁰.

¹⁰ https://www.ofgem.gov.uk/system/files/docs/2019/11/proposed_mra_transition_schedule_1.pdf
https://www.ofgem.gov.uk/system/files/docs/2019/11/proposed_spaa_transition_schedule_1.pdf

APPENDIX 3 – SUBSIDIARY DOCUMENTS

We are publishing the following separate documents referred to above as subsidiary documents to this launch statement:

Proposed MRA Transition Schedule
Proposed SPAA Transition Schedule
Spreadsheet with Further Information on Transition Approach for MRA and SPAA
Proposed Way Forward for MPAS Provisions