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22/12/17

Dear Neil,

ElectraLink's response to the Ofgem letter 'Future of supply market arrangements – call for evidence'
ElectraLink welcomes the opportunity to respond to the Ofgem letter 'Future of supply market arrangements – call for evidence'. ElectraLink is an integral part of the supplier hub in the UK energy market and is currently supporting a number of change programmes impacting this market arrangement including the Faster and More Reliable Switching Programme and the programme to extend half hourly settlement. ElectraLink is also becoming involved in the evolution of the Distribution Network Operators (DNOs) into organisations which will increasing become data hubs in their own right and improve flexibility to accommodate the growth in DERs and electric vehicles.

As a wholly owned subsidiary of the DNOs, ElectraLink has an obligation to competitively procure the technology and service components of a data transfer service (DTS). ElectraLink provides this service to the energy industry under a multi-party agreement, the DTS Agreement (DTSA), governed by a user group with oversight from Ofgem – details of the members of the user group can be found on our website[1]. The number of DTS users and data transferred by the service has increased rapidly over the last 5 years largely driven by new market actors, such as a new entrant suppliers and aggregators. Currently, there are 250 energy market participants connected to the data transfer service across many areas of the energy market.

ElectraLink provides comprehensive governance services to support the electricity and gas markets. ElectraLink is the central body responsible for administering the Distribution Connection and Use of System Agreement (DCUSA) and Supply Point Administration Agreement (SPAA). ElectraLink's role in driving change is highlighted by our central role in these and other developing codes, such as SMICoP and CMAP, that have a growing importance in the energy market.

In 2012 ElectraLink created, under the governance of the DTSA, a capability to analyse the data transferred across the DTS. This analysis supports industry process assurance, market monitoring and industry change through the extraction and analysis of data transferred across the DTS. The DTS Users directed ElectraLink to develop data analysis services at its own commercial risk but have the option to request these services via the User Group with the relevant costs being recovered through DTS charges.

[1] https://www.electralink.co.uk/data-transfer-service/dts_governance/

ElectraLink's response to this letter draws upon the experience and expertise of these three areas of our central body role. We are responding in our capacity as the operator and procurement agent of the DTS and our role as a code administrator of several energy market codes. This response does not reflect the views of the codes that we administer.

Our response to the letter's questions are in Appendix 1 and we are happy for you to make this response public.

Thank for you for the opportunity to respond. Should you require any additional information or if you have any questions, please contact Dan Hopkinson (dan.hopkinson@electralink.co.uk) in the first instance.

Kind Regards

Stuart Lacey
Chief Executive, ElectraLink

APPENDIX 1

QUESTION 1. WHAT ARE YOUR VIEWS ON THE ABOVE CRITERIA? ARE THERE OTHER CRITERIA THAT SHOULD GUIDE OUR ASSESSMENT OF CURRENT AND POSSIBLE FUTURE MARKET ARRANGEMENTS?

At the heart of the UK energy industry, ElectraLink provides a number of services that are crucial to the management of the gas and electricity markets, including: data transfer, data analytics and code governance. The criteria (our Mission, Vision and Values[2]) that we use to build our future business arrangements are framed around fostering an environment of "trust, choice and transparency" and we use these criteria to ensure that our business relationships are underpinned by competition, inclusion and engagement. **We believe the overriding principles that govern the UK Energy Market should be built on trust, choice and transparency and consider that the criteria set out by Ofgem meets these values.**

The criteria outlined by Ofgem rightly focus on delivering consumer outcomes and ElectraLink supports this principle-based approach to regulation. Whilst we do agree with Ofgem's approach, additional supply-side criteria would result in better outcomes for consumers. Below we have outlined two additional criteria that ElectraLink suggests Ofgem should add:

- **Market Data Transparency and Coordination:** ***Transparency of market data – through structured data transfer and a data lake – is a key criteria that should be monitored by Ofgem to guarantee the coordination, integration and clear revenue allocation of all actors and processes in the market.***
  The criteria that guide the future market arrangements should encourage data transparency between market actors to support the market-wide cooperation and coordination that drives competition. Effective management of data is best facilitated by a data hub that centrally manages data transfer and facilitates secure, transparent access to industry data to inform business processes and business development for new and legacy market arrangements.
  Market actors that are central to the supplier-hub model (suppliers, DNOs and Elexon) have a number of data transfer obligations, underpinned by code or license requirements, to support the functioning of the market. To respond to the movement away from the supplier-hub model and the increasing role of decentralised/non-supplier actors in the market, the industry will require clear and structured data transfer to underpin and govern the new processes and actors in the energy market. Structured, peer to peer data transfer will ensure the continued operation of the market and, as market processes become visible to the relevant participants, this will reduce the risk of added complexity with market change.
  Another aspect of the data hub is the provision of a UK energy market data lake. The ability to access key industry data (such as consumption or connection data) is an essential mechanism for market actors to understand the market and potentially develop new business models. A data lake that stores and makes visible key industry processes and data will enable market actors to make better informed decisions. ElectraLink is currently reprocuring the DTS to create the UK Energy Datahub (see Case Study 1), which will support this criterion. We outline how the data lake will improve the workings of the market and enable disruptive business models in our response to question 2.

[2] https://www.electralink.co.uk/about-us/

ElectraLink

Case Study 1: The UK Energy Market Data Hub

In response to the requirements of a fast evolving energy market ElectraLink is procuring a replacement for the Data Transfer Service (DTS) called the UK Energy Market Data Hub (EMDH). The EMDH will build on the solid foundation of the DTS, which currently transfers all electricity settlements, supplier hub, gas retail and renewable generation flows, to add new services to improve market data transparency.

ElectraLink will continue to provide cost-effective data transfer, with improved interface capabilities, reporting, storage and more flexible ways of interacting with the service. In addition, ElectraLink will provide new central services to cost-effectively support suppliers, network operators, metering operators and emerging parties with access to market processes and data.

The EMDH is a natural evolution of the DTS, opening up transparency of industry data and processes to inform business process improvement for new and legacy market participants.

ElectraLink will be conducting a number of Proof Of Concepts (POCs) in Q1 2018 to demonstrate how some of the industry's pain points can be addressed through providing access industry data and processes in more efficient and transparent ways. These POCs will inform a set of requirements which will feed into the procurement of the EMDH.

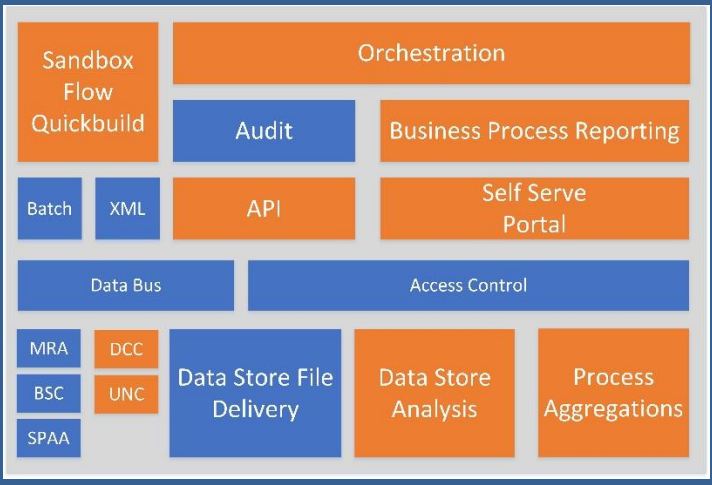

Fig 1: A high level view of the EMDH.

Innovations (in orange) include a sandbox environment to quickly build and test new data flows using a GUI design engine, and APIs to transfer data and access market information via a self-service, secure hub, facilitating business process visibility and industry process benchmarking.

- **<u>Flexible Governance Structures:</u>** ***Ofgem's criteria should include the assessment of governance arrangements to ensure that governance focuses on what is achieved, without prescribing how it should be achieved – this should enable disruptive business models to enter the market.***
  Code governance, as outlined in Question 4 below, can help the development of new market arrangements; however, the current governance structures may need to be reviewed and amended if the industry is to move away from the current supplier hub model.
  ElectraLink believes that Ofgem should consider establishing a two-tier code governance structures whereby the first tier focuses on the outcomes for consumers (i.e. the consumer is not unfairly treated) and the second tier is more prescriptive, focusing on how information is shared between market participants. This would support the move to more principle based regulation, ensuring that the consumer outcome is at the centre of any decisions, whilst also ensuring that the structures and mechanisms are in place for the market to operate. This approach would also lend it towards two separate governance structures, with any changes to the consumer outcomes requiring Ofgem approval and changes to the market mechanisms coming under self-governance.
  An example of these principles of code governance being applied successfully can be found within the settlement arrangements that govern Data Aggregators and Data Collectors (DA and DC). Data is essential to the settlement process and the DA and DC are the mechanisms used to gather and process the data. Whilst the data requirements are prescriptive and set centrally (as they are required for the settlement process to operate), the mechanism to gather the data and establish the commercial relationships between the supplier and DA/DC are not defined centrally. This governance structure has enabled multiple business and commercial models to evolve in the DA and DC role, without hindering key market processes. This mechanism of prescribing 'what' (data transfer) is required without the 'who' or 'how' enables new business models to enter the market without governance constraint.
  ElectraLink is applying these criteria to the codes that we administer. As code administrator for the Distribution Connection and Use of System Agreement (DCUSA)[3], we are supporting DCUSA (see case study 2) to ensure that the code develops the right outcomes for the market without necessarily prescribing the mechanisms to do so.
  Our work with DCUSA is currently reviewing how DCUSA's governance should be transformed to support the changing DNO environment (greater flexibility, renewables and the transition to DSO) and our criteria for developing future market arrangements will be based on promoting a regulatory environment that is flexible (enables multiple business models), encourages innovation and is built on engagement with the market and new market actors. ElectraLink will be the bridge between current and future market arrangements and will work with DCUSA to identify a migration path from the current market arrangements to future market arrangements.

[3] The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between licensed electricity distributors, suppliers and generators in Great Britain concerned with the use of the electricity distribution system.

Case Study 2: A Way Forward for DCUSA Governance

The growth in smart technology, new business models (such as local energy schemes or aggregators) and low carbon embedded generation, storage and electric vehicles all challenge the current DCUSA model.

Increased penetration of smart appliances and Distributed Energy Resources (low carbon distributed generation or EV) expand the opportunities available to the consumer and DNO to control their energy consumption; for example, the use of domestic smart appliances (including EV) or DER to manage domestic demand and consumption.

Together, all of these mean that the way in which Suppliers, electricity networks and customers interact with each other is changing and the concept of the Supplier hub for all customer engagement is being questioned. These changing relationships have a significant impact on the industry codes and rulebooks which have all been created and maintained on the Supplier hub principle. This change acutely impacts DCUSA.

First, these changes challenge the established information flows underpinned in the code, as the information the DSOs need to actively monitor and plan their networks and ensure security of supply is maintained, will change.

Second, DCUSA will need to ensure the charging arrangements evolve to ensure the costs of the distribution networks are allocated to those that are using it (not just suppliers); whilst ensuring that the costs do not fall on those who are least able to afford it.

To support these changes in a structured and co-ordinated manner, ElectraLink has organised a strategy day for the DCUSA Board. This will enable the Board to consider all changes impacting on the electricity networks in a holistic manner, and to develop a path for resolving these. This session will not identify whether the Supplier hub model will remain fit for purpose in the future, or alternate models; however, it will start to map out the interactions between different participants and the principles on how information is shared in an increasingly complex market environment.

QUESTION 2. WHAT ARE THE MOST SIGNIFICANT BARRIERS TO DISRUPTIVE NEW BUSINESS MODELS OPERATING IN THE RETAIL MARKET? PLEASE DRAW A DISTINCTION BETWEEN REGULATORY BARRIERS AND COMMERCIAL BARRIERS (EG THERE MAY NOT BE ENOUGH POTENTIAL CONSUMER DEMAND TO JUSTIFY MARKET ENTRY).

One barrier to new business models or actors operating in the retail market is the complexity of market arrangements. Feedback provided by new entrants as part of ElectraLink's customer engagement programme leads us to believe that it is difficult for new entrants to navigate and understand the regulatory obligations outlined in the licences and multiple codes and agreements by which the market is governed. This complexity reduces appetite for market entry, due to the high administrative burden and potential costs involved in complying with code and licence obligations, as well as performing regulatory analysis – this disproportionately impacts smaller suppliers or companies.

Whilst ElectraLink understands the requirement for regulation in the marketplace, we believe simplification of regulatory models, providing more information through a variety of channels and engagement opportunities will improve this constraint. This has been evidenced through ElectraLink's New Entrant Support Programme (see Case Study 3), which has simplified information on behalf of the DTS and the Supply Point Administration Agreement (SPAA). This programme has been established since January 2017 and provides the suppliers with the information required for them to navigate through the regulatory space in the energy market.

Case Study 3: The New Entrant Support Programme

Through ElectraLink's management of SPAA and the DTS, ElectraLink supports new supply businesses entering the gas and electricity markets. ElectraLink's New Entrant Support Programme was inaugurated in January 2017 to understand small retail supply businesses and their specific regulatory requirements better and, as part of this programme, analyse the process of accession to energy markets and highlight where ElectraLink can improve services.

Without consistent and transparent information, new entrants do not have access to the whole picture of requirements across industry codes and networks to build this expertise internally. Our Governance Services business and new entrant support programme has spent considerable time engage with new entrants to help resolve this knowledge gap. ElectraLink's programme provides materials (induction packs, including overviews of DTS and all code obligations, and a 'industry checklist' for their obligations), consistent and regular support, host events on key market changes (Switching and Half Hourly Settlement) and meetings with new entrants (or their third party provider) to ensure that the regulatory space is not a deterrent to entry. Whilst this has facilitated small suppliers entering the market, more still needs to be done by the industry to reduce the complexity of market entry.

Our new entrant support programme has supported 15 participants joining the energy market since January 2017, representing a 6% increase in users of the DTN (see Chart 1). **Whilst the proliferation of new and small suppliers in the energy market is a fundamental change in the operation of the market, very few of these new entrants are disruptive to the supplier hub model of the energy market – most new retail entrants have been suppliers.**

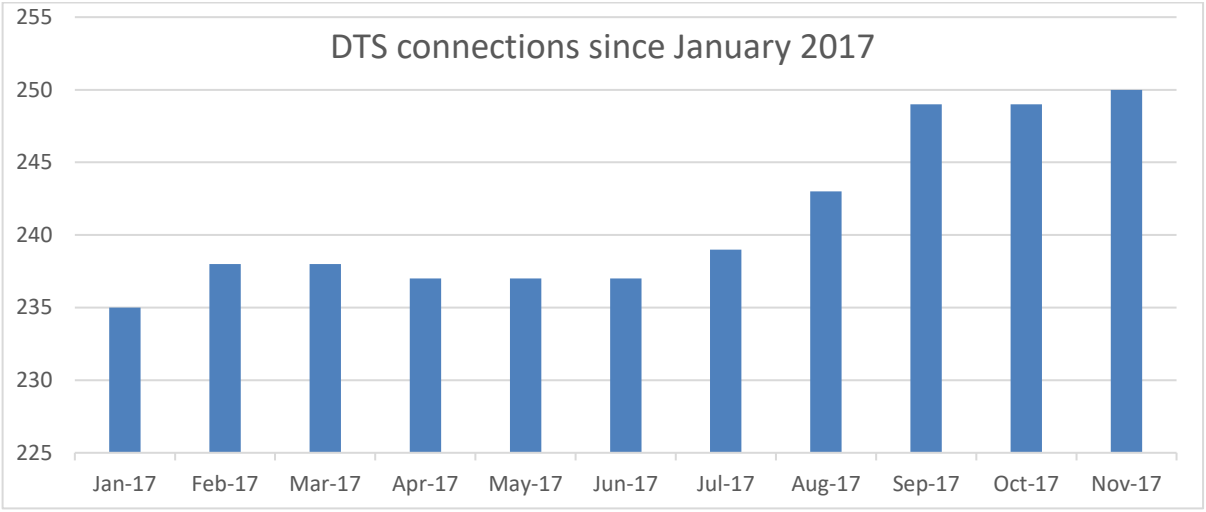

Chart 1: DTS service connections since January 2017.

A key barrier to the evolution of disruptive business models is a lack of visibility of market data. Unlike other markets, such as Norway, the UK does not currently have an energy market datahub that industry participants can use to inform their decisions or facilitate/replace data transfer. Enhancing an existing business or investing in a new business model requires an understanding of the current state of the market, which requires visibility of and access to key market data. Lack of information surrounding the state of the market can lead to a lack of engagement, as risk-adverse participants are deterred from investing in new business models, due to not having data to rationalise or support entering the market. Notwithstanding investment issues, lack of access to data could also stifle the development of new business models, where market participants do not have access to the data to drive their business processes (see case study 4).

Since 2012, ElectraLink has been given permission to extract DTS data for the use of improving market efficiency. ElectraLink's Energy Market Insights team has subsequently used DTS industry data to support market processes, improve practices and support new business models. An example of a new, disruptive business model that has developed through the availability of data is the Flipper business model. Following their entry to the market, Flipper discovered that they were lacking some key industry data around the switching process to support the success business model. ElectraLink subsequently worked with Flipper to understand their requirements and then built a process, reporting specification and a commercial solution that allowed them to trial a proof of concept in a way that supports their new model. We also established flexible commercial terms to support the risk of starting a new business. Since then, Flipper has fundamentally transformed the switching process by initiating switching on behalf of the customer and removing the customer from being directly involved in the switching process (see Case Study 4). Use of DTS

data has supported this success of this model by allowing Flipper to track the change of supplier process to ensure that the actions they have initiated have been completed.
The UK Datahub supported by ElectraLink (as explained in question 1) can perform the role of the datahub for the UK energy market.

Case Study 4: Data Transparency and Flipper

ElectraLink has recently partnered with Flipper to provide a new service that tracks the progress of Change of Supplier (COS) events in near-real time, increasing the transparency of the process.

Flipper offers an independent, managed switching service to domestic consumers, switching between Suppliers and tariffs on behalf of the consumer to ensure the consumer is always on the best available deal.

The new service utilises ElectraLink's unique access to industry data, through its capability to extract and load DTS data files, specifically those related to the Change of Supplier process. Thanks to the service Flipper can now see in advance when the COS events they have requested on behalf of their customers are due to complete, and if there any issues encountered during the switch. This enables Flipper to target those failing processes and engage with the correct industry participants to fix the problem in the shortest time possible. This is fundamental to the success of their business model and would not be possible without DTS data.

We believe that access to industry data must fall under industry governance and be centrally available, from a trusted entity, to ensure that all participants have equal, secure access to industry data. A structured governance arrangement for data sharing, such as the DTSA that governs the DTS dataset, will reduce the data risk (the wrong people accessing the data) and a lack of independence/anti-competitiveness as the industry govern how industry data can be used.
As discussed in question 1, **an additional barrier to the development of disruptive business models is the existing governance structure**. Current code governance arrangements are centred around self-governance, which effectively results in the market being governed by the incumbents. At worst, these market arrangements could be used by incumbents to protect their market share from disruptive business models and, at best, incumbents could struggle to understand the governance requirements of the new business models. Therefore, whether inadvertently or not, the governance arrangements could restrict new business models entering the market. If the market is to be opened to truly disruptive business models, the governance structures should be flexible enough to allow for new actors to enter the market, whilst prescriptive in its outcomes for the consumer and key business processes (for example, data transfer). We outline how this could be achieved in our answers to questions 1 and 4.

QUESTION 3. WHAT OTHER SUPPLY MARKET ARRANGEMENTS WOULD PROVIDE A BETTER DEFAULT FOR DISENGAGED CONSUMERS, WHEREBY THEY ARE PROTECTED ADEQUATELY AND ARE ABLE TO ACCESS THE BENEFITS OF COMPETITION?

ElectraLink believe analysis of consumer switching data by Ofgem would allow for more focussed regulatory interventions to protect disengaged customers. Whilst Switching levels continue to increase, with Electricity switches up 80% since January 2016[4], it is still circa 42% of households that are driving these increased rates of switching. Therefore, detailed analysis of the drivers for increased switching rates and disengagement in the market will inform any potential Ofgem regulatory interventions.
If we are looking at the increase in switching rates, a key driver could potentially be an increase in small suppliers, with the market share of the Big 6 shrinking month on month (see chart 2); therefore, Ofgem may wish to review barriers to entry for new suppliers.

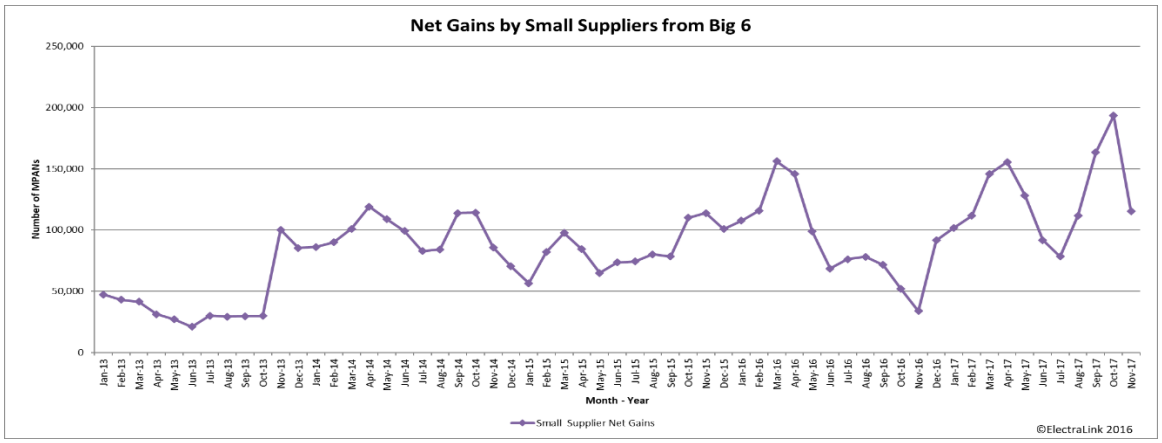

Chart 2: Net gains by small supplier from Big 6 (source: DTS data)

ElectraLink do not know what market arrangements will result in better conditions for disengaged customers; however, we do believe that detailed analysis of consumer engagement data is needed to ensure that policy interventions are effective to protect disengaged customers. A standard view held in the industry, and with Ofgem[5], is that lower income backgrounds tend to be the least engaged – this results in much policy intervention focusing on those with lower incomes. However, using data from the DTS and matching it with indices of deprivation[6], highlights that, in reality, it is the properties in the middle percentiles of deprivation that are least likely to switch (see chart 3). Evidence, such as this, may lead Ofgem to change their approach to improving consumer engagement. This is only one example of how detailed analysis into the drivers of switching and engagement will inform policy decisions; therefore, ElectraLink believe that Ofgem need to further their analysis of switching data to ensure that they are employing the right interventions to encourage engagement.

[4] Figures correct as of November 2017
[5] https://www.ofgem.gov.uk/system/files/docs/2017/10/state_of_the_market_report_2017_web_1.pdf, page 3
[6] The Indices of Multiple Deprivation score can be found by post code level here: https://ons.maps.arcgis.com/home/item.html?id=dfa0ff74981b4b228d2030d852f0b14a

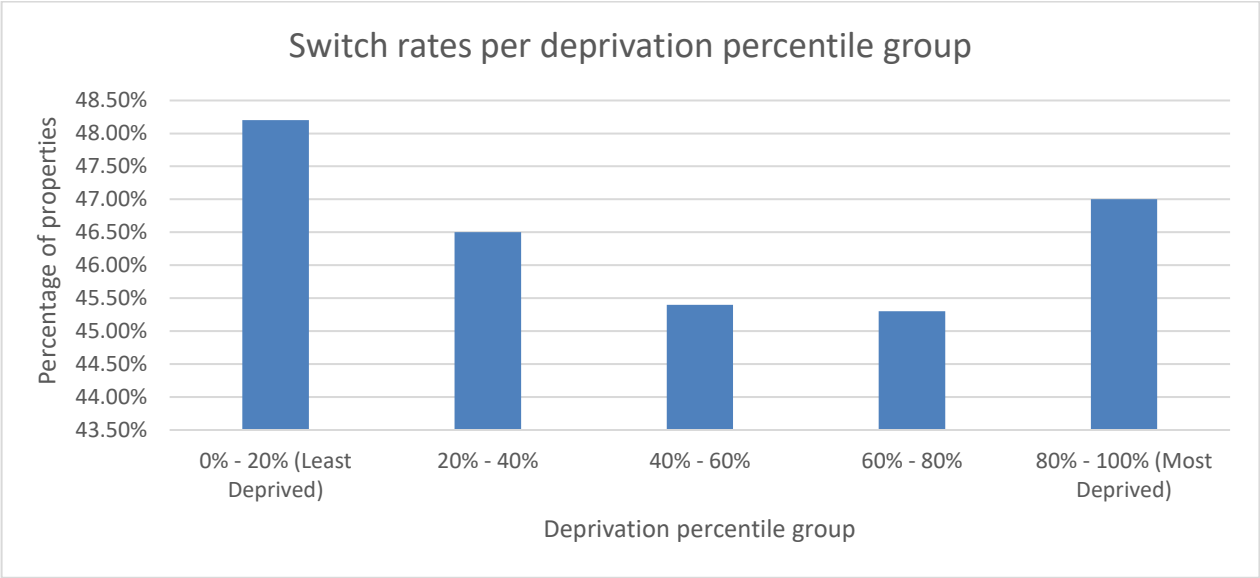

Chart 3: Percentage of properties that switch, according to deprivation percentile group.

ElectraLink also believe that the development of a Disengaged Customer Database would open up a new data source to Ofgem around customer engagement and result in more targeted interventions for Ofgem, suppliers and intermediaries. We are working to develop the UK Theft Risk Assessment Service (TRAS) to include tariff information in the data transfer from suppliers for Theft analysis, as this would facilitate the ability to identify disengaged customers without requiring any significant additional workload for suppliers. Once this data is available, Ofgem will be able to analyse and understand the drivers behind reduced engagement and work on improvements to consumer engagement.

QUESTION 4. HOW BIG AN ISSUE IS IT THAT WE DO NOT CURRENTLY REGULATE INTERMEDIARIES IN THE ENERGY MARKET? IS THERE A CASE FOR DOING SO? IF SO, HOW WOULD WE BEST DO IT? WE ARE ESPECIALLY INTERESTED IN FRAMEWORKS THAT ENABLE A WIDER VARIETY AND INCREASED NUMBER OF MARKET PARTICIPANTS TO PROVIDE SUPPLY.

We support the introduction of new actors in the market to provide innovative ways to interact with consumers. As explained in question 1, we believe that there should be a standardisation of the data transfer across market arrangements to ensure that the market can continue to work for consumers, irrespective of the actors or business models. As a result, **suppliers and non-suppliers should experience the same regulations in the retail market.** We believe the Retail Energy Code could support the standardisation of treatment of all market actors.

We do not recommend that these regulations are prescriptive in a way that stifles innovation. **The regulatory space should focus on achieving a particular set of outcomes (visibility, consumer engagement, share of data or consumer prices) and, if we measure the outcomes from suppliers or intermediaries using a strong performance assurance regime, this would avoid the need for prescriptive regulation (how to do it) and focus on the outcomes.**

The ability to provide process/performance assurance centrally will improve the structure and compliance in the market, as it will enable Ofgem and market participants to monitor industry performance. We believe governance should be underpinned by a strong performance assurance regime to ensure the reliability of the market is maintained (including the reliability of data) and the consumer impacts of a changing market (new actors or processes) are tracked to monitor whether any regulatory or business changes result in a reduction in outcomes to consumers. Performance assurance can be provided using existing infrastructure at a low cost to consumers; for example, data from the DTS has been used by the ETWG to drive their decision-making on key ET issues. ElectraLink has a solution using the information transferred over the DTS to develop a performance assurance reporting framework to track the progress of business processes, such as erroneous transfers, and highlight process failures. This could be developed further to produce a central, cost-effective, secure and independent assurance service to ensure the right consumer outcomes are achieved.