

Mr Dermot Nolan  
CEO  
Ofgem  
9 Millbank  
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30th November 2017

Dear Dermot,

**Future supply market arrangements – call for evidence**

We fully support Ofgem's strategic leadership in creating a future where competition constrains prices, drives efficiencies, and delivers a range of services and products that consumers need. We agree that, as the energy system becomes decentralised, electrified, smart and flexible, it is time for the UK to investigate and pursue an alternative approach.<sup>1</sup>

However, we believe that Ofgem is in danger of missing an important opportunity to create an energy infrastructure that will deliver efficiencies, innovation, services and products that consumers will demand from a future energy system.

The Government's objective<sup>2</sup> is for the UK to be at the forefront of the data revolution and to maximise the value of connected, large-scale data that can be analysed to generate insights and spur innovation. To be at the forefront of innovation in the energy market, and ensure that there is effective competition in the market, it is crucial that the UK gets its digital energy systems right. This means establishing an infrastructure that can take advantage of future innovations, reinforces data quality, and supports integration, whilst preventing the creation of data silos and duplication.

Ofgem is playing a vital role in setting the direction of travel, and making key decisions in the evolution of the UK's digital energy infrastructure. It has the opportunity, with the procurement of a new dual fuel asset register and harmonised registration processes, the Central Switching Service (CSS), to set out and implement its vision for a robust digital infrastructure that is capable of evolving with the inevitable changes and challenges that the energy system is now facing. The CSS is an opportunity to create a decentralised data service with implications that go far beyond faster switching: it is the

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<sup>1</sup> Future of supply market arrangements – call for evidence, 14 November 2017.

<sup>2</sup> Industrial Strategy Building a Britain fit for the future, 27 November 2017.

cornerstone that will provide the basis for competition and new services in the retail sector. For example, the development of local energy and flexibility markets requires visibility of current and future local assets, their exact location and the balancing responsible party<sup>3</sup>. New entrants at the forefront of innovation in the energy market, and the majority of suppliers recognise the pivotal role that the new asset registration service will play in the evolving energy system and support a decentralised and collaborative asset registration system.

Ofgem's current approach is limited in scope, mandating a small part of the switching infrastructure that replicates the current technical requirements. This will perpetuate issues with data quality and favours large incumbent service providers. We believe that this approach, if pursued, will be a major missed opportunity. It would also be irrational, as the CSS procurement in its current configuration, is contrary to the objectives of the Call for Evidence.<sup>4</sup>

We respectfully urge Ofgem to review its current approach to the development of the CSS. The CSS is a unique opportunity for Ofgem to champion a modern, data-driven system, fit for the future. One that is capable of interacting effectively with a wider energy market in a decentralised, electrified, smart and flexible world. Missing this opportunity would result in the UK being locked into an outdated, inflexible system for the next 20 years.

We look forward to working collaboratively with the industry and Ofgem in bringing innovation to the energy markets that supports Ofgem's strategic vision for the future of the energy industry.

Yours sincerely,



Paul Ellis,

CEO

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<sup>3</sup> Please see Annex 1 for further analysis.

<sup>4</sup> Future of supply market arrangements – call for evidence, 14 November 2017.

## Annex 1

CSS is a service, and should not require the creation of another centrally managed database that duplicates data held elsewhere. The industry already suffers from enough incomplete and inconsistent datasets.

The government's Industrial Strategy white paper aims to put the UK at the forefront of the artificial intelligence and data revolution. But even the best algorithms will always be undone by incomplete and disparate data.

Blockchain allows a different approach to the problem of centralised ownership and control of data. While both delivery and ongoing costs can be lower than traditional approaches, greater benefits will be derived from:

- Collaborative ownership and transparent governance with the ability to embed rules into processes through smart contracts
- Richer data sets, whereby the CMA remedy can be delivered through analysis of existing data, and there are incentives and rewards to cleanse and share data
- Open data enabling better regulatory oversight, through removing the monopoly on DTN analysis
- Innovative platforms facilitating new services, business and market models such as local flexibility markets and p2p trading to co-exist with supplier hubs
- Modern messaging protocols and APIs to better integrate with existing user systems
- Integration of gas and electricity with wider datasets, e.g. water, open banking etc.

This collaborative approach based on distributed ledger technology has received widespread support within the energy industry.

A CSS is an opportunity to put in place the foundations that will support the transition to a smart and flexible energy system, but risks embedding the institutions that will hold it back.

In order to both de-risk the procurement process and enable innovative approaches, we recommend that Ofgem:

- Reassess the scope to ensure that “any investment does not become regret spend in the coming years”
- Invest a small proportion of the £24m procurement budget in an early trial
- Leverage the sandpit approach to allow emerging technologies to be tested and identify restrictive code governance