



To :

Neil Barnes,
Associate Partner,
Consumers and Competition,
Ofgem.

Salient Systems Ltd.
Cobalt Business Exchange,
Cobalt Park Way,
Newcastle Upon Tyne.
NE28 9NZ

Telephone: 0191 215 5045

Subject: Future supply market arrangements – call for evidence

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Dear Neil,

Salient Systems Ltd (SSL) are happy to provide our initial brief comments to Ofgem's recent Call for Evidence – Future Supply Market Arrangements.

We note Ofgem plans to convene future workshops with stakeholders to discuss issues further. We also note that further work here will likely proceed along a similar timeframe to the ongoing Electricity Settlement Reform SCR. We conclude that there are candidate synergies and linkage between both of the above work streams that will benefit from distinct workshop review of Supplier Hub arrangements going forward.

We will certainly be keen to contribute to workshop reviews as and when such opportunities arise, to further illuminate our initial observations and explore initiatives with others. In the meantime, if there are early questions arising from any of our brief comments over page then please give me a call to discuss further.

Yours sincerely,

Dermot Hearty
Managing Director
Salient Systems Limited
07801 947336
www.salient-systems.com

Email: heartyd@salient-systems.com

Response to: Future Supply Market Arrangements – Call for Evidence

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Topic 1 - Guiding criteria to evaluate a successful supply market

Q1 What are your views on the above criteria? Are there other criteria that should guide our assessment of current and possible future market arrangements?

Given Ofgem's consumer focused remit it is appropriate that guiding criteria align well with the aims to promote supply competition, enable innovation and ensure protection for all consumers, particularly the vulnerable.

However, the evolving role of the Supplier and the assured delivery of attached responsibilities will remain a critical component of the success, or otherwise, of evolving market arrangements in an increasingly heterogenous, flexible and competitive market for services to the consumer.

Realising the positive objectives of Ofgem and Government to achieve flexibility and innovation at the energy market will, without doubt, also result in increased complexity. Consumer navigation of available service options followed by appropriate choice and commitment to services that will deliver benefits will be a key challenge. While complementary or 'stacked' service choices should be encouraged the potential for 'colliding' or overlapping service commitments must be mitigated. Evolving market arrangements will, in our view, provide commercially attractive space for the competitive delivery of 'Trusted Facilitator' services to the consumer and to innovators.

Unsurprisingly, there is already some evidence in the current market of Supplier led or Supplier coordinated initiatives to extend and integrate wider and more innovative service offers to consumers, on the back of existing energy supply offers. Such initiatives, while commercially well grounded, will be disadvantaged by persisting poor levels of consumer trust in Supply companies and the potential for disruption to consumer ancillary service deliveries at Supplier switching events. At any new market arrangements it would seem wholly inappropriate to rely upon the Supplier alone to deliver any 'Trusted Facilitator' role to the consumer and to service innovators.

Nevertheless, it will be important to assure that the Supplier has adequate views into commitments entered into by the consumer with other service providers in order that the risk of compromise to Supplier steady state business functions and responsibilities is avoided. Any increased Supplier balancing risk arising, for example, will be expected to impact significantly upon Supplier business models and liquidity, particularly at smaller Suppliers who are successfully competing with larger Suppliers at consumer supply switching events.

We believe that an emerging role of 'Trusted Facilitator' is entirely achievable at any future competitive market model arising for this and other services to the Consumer. Such role, however, must also adequately address and deliver Supplier visibility upon customer interactions and commitments at the developing market for the wider range of services that will be available to consumers from multiple service providers.

We suggest that the census of guiding criteria to evaluate a successfully developing supply and services market would be usefully complemented by some suitably worded statement of objectives that will allay Supplier concerns around risk. Guiding criteria must encourage the development of competitive market mechanisms that will be capable of coordinating the requirements and constraints of the widest range of existing and new service offers to the

consumer, while illuminating and addressing the impacts of consumer commitments upon other stakeholders, including the Supplier.

Topic 2 – Barriers to innovation

Q2 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).

We expect that the predominant challenge that must be successfully addressed in order to deliver the benefits arising from increased flexibility and innovation at the market is the data management challenge. The successful, orderly and coherent delivery to market of innovative products and their benefits will be frustrated by failure to deliver effective data management architectures that are responsive to impacts arising and to the multi-lateral commercial relationships that will develop between the consumer and others.

An effective data management architecture will be characterised by:-

- Accommodating the meta data model that will describe the range of service types available to the consumer. Delivery of the logical classification of the characteristics of the range of innovative services that will develop at the market is non-complex but will benefit from Ofgem sponsorship and buy-in across industry.
- Meta data relationships will illuminate the linkages between service types and the range of related synergies, constraints and operational requirements in play at the market - including, for example, impacts at other parties; commercial relationship dependencies between parties; parameters that will be in play related to service delivery scope, schedules, commitment requirements; product opportunity/benefit confirmations; delivery validation, measurement and reporting to parties; predictive estimation of service volumes and impacts, service collision and stacking dependencies/opportunities, etc.
- Commercial drivers at innovators will be expected to ensure that new service models are illuminated and understood by the consumer and others – and aligned with data management service delivery requirements. Validation and classification of new service model components against the meta data model for services will facilitate the positioning of service product specific operating models at the data management architecture.
- The architecture must be capable of recording, managing and reporting upon consumer opportunities, commitments, predicted and achieved benefits at service product offers, alongside the impacts upon other parties.
 - The architecture must include all necessary customer metering system (MPAN) related data describing other interested parties (supplier, distributors, other agents etc) and the detailed historical and most current consumption profiles at the metering system.
 - It must provide secure and robust interfaces to the consumer, innovator and other impacted parties so that appropriate consumer commitments against products can be assured and MPAN specific configuration and operational data can be identified and integrated within the operating model.
 - Operational interfaces from innovators will complement service product model configurations of steady state, signalling service events, targets, durations, results.
 - Continually updated consumption data at the architecture (including best estimated data replaced by eventual actual consumption data) will enable refined generations and reporting of appropriate accruals and commitments at all parties implicated at the operational model.

Delivery of an effective data management architecture that will assure a level playing field to all participants may look like a tall order. However, interestingly enough, there already exists at the

Supplier Hub model a set of competitive and experienced data management role holders who can immediately deliver the majority of the features required at any future competitive data management service architecture. We would confidently predict that the interests of consumers, innovators and other parties, including Ofgem, will be best served through closer consumer focused and consumer nominated positioning of an extended HHDC/DA industry role.

A few pertinent observations are offered here to support a pragmatic decision to encourage competitive HHDC/DA service extension:-

- HHDC/DA role holders are already highly experienced data management practitioners, assuring the process and data integrity of a set of distributed BSC processes across a range of industry participants.
- Established and robust industry processes already assure that HHDC/DA are automatically aware of all necessary Mpan related configuration and consumption data, including generation of estimated consumption data until actual consumption data is achieved.
- The HHDC/DA role has established, formal data reporting interfaces in place to Supplier and LDSO. Proactive historical, current and predictive analysis and reporting of consumer commitments and deliveries at new products could be delivered to all impacted parties easily and securely.
- HHDC experience at the I&C market, through positioning of consumer focused value adding services to SME and industrial consumer clients, aligns well with the range of services that must be delivered to the domestic consumer, to their 'Trusted Facilitators' and to product innovators.
- The HHDC is aware of and adheres to all BSC related policies and procedures and is well positioned to monitor or proactively facilitate the positioning of appropriate BSC policies or mechanisms that may be implicated at particular new product operational models.
- The established role and responsibilities of the HHDC/DA to support settlement impacts at the Supplier will persist, additionally accommodating the impacts resulting from consumer commitments at new product offers.
- Commercial drivers will be in play at all participants, including at the Supplier, to ensure that they can each participate effectively and securely within attractive consumer product operational models configured and facilitated at the HHDC/DA. Where required, any bilateral or multi-lateral agreements implicated between parties will be encouraged in order to assure effective participation at the market.
- Competitive commercial arrangements between Suppliers and HHDC/DA agents are established mechanisms already in play at the market to assure delivery of agreed service levels by HHDC/DA to the Supplier. Direct data management charges to consumers and potentially to innovators may be avoided through extended service level offers from HHDC/DA to the Supplier. The potential for consolidated and integrated consumer billing for all services via the Supplier is improved.
- The consolidated and consistent data management architecture at HHDC/DA would avoid complex alternatives and minimise the costs to position and administer the data required and the services delivered from innovators. Consumer commitments to operational service deliveries would be more easily and promptly reconfigured over consumer change of supply events.
- An extended HHDC/DA role would provide a distinct and more manageable target for implementation and assurance of any Ofgem required regulatory regime across parties.

We believe that in order to achieve any variant or variants of persisting, effective and integrated data management architecture then a variety of Ofgem regulatory direction will still be required.

At any HHDC/DA extended service variant the consumer, rather than the Supplier, must have the authority to nominate their own HHDC/DA service provider. Positioning of HHDC/DA agents as signatories to the BSC may be usefully considered in order to better assure wider objectives.

At any and all variants of an effective data management architecture it will be important that the consumer is fully aware of the value that can be expected to be achieved from service product variants. Light touch regulation from Ofgem can persist here as long as expectations upon innovators to fully illuminate service model offers and their commercial impacts upon and incentives to impacted participants are adequately addressed by innovators and visible, understood by consumers.

Enabling the consumer to intervene effectively at a more complex market for services, particularly vulnerable and 'sticky' consumers, will remain challenging. Here we would encourage Ofgem to incentivise interested parties who can secure trusted relationships with consumers to adopt a role of 'Trusted Facilitator' to the consumer. Viable candidates for such role would include Local Authorities, consumer focused charities, established consumer groups etc. Regulation and rules are appropriate here and will need to be reflected at any data management architecture for services.

Topic 3 – Alternative default arrangements

Q3 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?

We would encourage serious review of a 'Trusted Facilitator' role provider to consumers.

Topic 4 - Consumer protection

Q4 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.

Again, we believe that a 'Trusted Facilitator' role has the potential to contribute significantly here, but, again, regulation and rules are appropriate targets for Ofgem.

We also believe that there are existing BSC aligned market mechanisms that should be explored and evaluated fully for fitness to address alternate models of supply to consumers. Any refinements that may be required to existing mechanisms will be less problematic and more likely to deliver benefits than any radical alternatives.