

By e-mail to: fwp@ofgem.gov.uk

Forward Work Programme 2018-19

Ofgem

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Ofgem Forward Work Programme 2018 to 2019 – ELEXON response

We welcome the opportunity to comment on the Ofgem Forward Work Programme (FWP).

As you are aware, ELEXON is the Code Manager for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC. We also undertake the settlement activities for Contracts for Difference and the Capacity Market on behalf of LCCC/ESC. In addition we provide key resources in support of Ofgem's project work on a number of its key initiatives – see the diagram at the end of this response for more detail.

ELEXON has the following observations on several of the workstreams under two of four Key Priorities in your Forward Work Programme.

The views expressed in this response are those of ELEXON Ltd, and do not seek to represent those of the BSC Panel or Parties to the BSC.

Priority 1: Enabling a better functioning retail market

Supply-side competition - Future supply market arrangements

Since privatisation the retail energy market has been based on the 'supplier hub' model. However, with advances in technology and business models, a supplier may no longer be a sole provider of energy to the future consumer. The future consumer is likely to have contractual relationships with existing/new suppliers as well as new service/technology providers or providers of bundled services. Energy market arrangements will have to change to support disruptive competition in the retail market.

We support Ofgem's intention to unlock any barriers that may arise from the supplier licence, fragmentation of central services and codes or prevailing supplier practices.

At present, there are already two major developments in progress lead by ELEXON, namely:

1. Designing of TOM (Target Operating Model) for market-wide Half-Hourly Settlement, where ELEXON, as part of Ofgem's Significant Code Review, is leading the work of the expert working group. We believe that Half Hourly Settlement will be a fundamental enabler for development and wide adoption of the innovative services for the consumer, such as time of use tariffs, aggregation of domestic-level flexibility resources and storage, and V2G (vehicle to grid) services among others.

2. BSC Modification P362 ('Introducing BSC arrangements to facilitate an electricity market sandbox') to allow for pre-competitive or proof of concept testing for innovative products/business models in the live BSC Settlement environment.

In addition to sharing our views and proposed solutions under the above-mentioned initiatives, we have also summarised further considerations in ELEXON's response to Ofgem's call for evidence on future supply market arrangements that can be found here: https://www.elexon.co.uk/wp-content/uploads/2018/01/ELEXONs_response_to_Ofgem_future_supply_market_v1.0.pdf

Faster, more reliable switching programme

We are supportive of the new harmonised electricity and gas switching processes delivered by a new Centralised Switching Service (CSS) and governed by a new Retail Energy Code (REC).

With regards to the future of registration data, we believe that the advent of the CSS and REC comes at the right time to reassess how registration services (and their governance) should best be modified to support the non-retail – e.g. settlement and networks – requirements for metering point data. This is particularly important because, after twenty years of relative stability of industry registration data, new thinking is needed to support the raft of innovations and technologies that are currently emerging.

When it comes to the REC administration, we believe ELEXON would be the best candidate for the REC administrator role because of the synergies between wholesale and retail, the importance of ensuring accurate settlement and billing of customers' energy usage, our independence from industry stakeholders, our track record of high customer satisfaction (as evidenced by our independent customer survey results and Ofgem's own code administrator's survey where we came top overall), our record of timely delivery of industry change and our transparent and our not-for-profit funding model. We believe the combination of these factors will deliver the best value to the industry participants and end consumers.

The details of our thinking can be found in ELEXON's response to 'Delivering Faster and More Reliable Switching: proposed new switching arrangements': https://www.elexon.co.uk/wp-content/uploads/2017/11/ELEXON_response_to_Ofgem_faster_switching_Nov-17_v1.0.pdf

Priority 2: Facilitating change in the energy system

ELEXON fully welcomes the Ofgem's intention to focus on whole system coordination through close cooperation with industry, UK Government, code administrators and other stakeholders. We believe coordination sits at the heart of achieving transformational change envisioned by the Clean Growth Plan, the Industrial Strategy and Smart systems and Flexibility Plan.

There is a significant amount of industry change planned for the next decade, particularly in the electricity sector, and it is important that stakeholders are clear on where the government and regulator expects resources and effort to be prioritised to maximise benefits for consumers.

Future arrangements

Innovation Link. We welcome Ofgem's lead on supporting new business models and innovation into the electricity sector through its Innovation Link initiative. ELEXON has provided expert advice to Ofgem in their 'Sandbox' programme to help identify where barriers to innovation may exist today. We will continue to provide further support to Ofgem's Innovation Link team and will ensure the BSC

'Electricity market sandbox' is aligned with Ofgem's efforts to ensure innovators have a seamless experience in dealing with the regulator and central bodies.

Code Governance Reform. We note the proposals for establishing a consultative board and ELEXON has commented at length in our response to Ofgem's consultation for Code Governance Reform on these and the wider code reform proposals. The scope of the consultative board should be defined alongside how it interacts with existing industry governance (e.g. Code Panels and Code Managers), the Energy Innovation Board and the Electricity System Operator. Our observations on how Ofgem can immediately improve the current code arrangements (i.e. without the need for legislation) and thoughts on the consultative board can be found here: <https://www.elexon.co.uk/wp-content/uploads/2017/02/Implementing-CMA-Code-Reform-Consultation-ELEXON-response.pdf>

Critical infrastructure and arrangements

Half-Hourly Settlement. As noted above, ELEXON, through an expert group, is leading on the development of the market-wide Half-Hourly Settlement, as part of Ofgem's Significant Code Review. Our critical design principle is to ensure the Target Operating Model is flexible to support new business models (e.g. peer to peer trading) and to enable a full range of consumer benefits brought together through advances in smart metering, digital technology and consumer products (e.g. smart thermostats, energy monitors, home batteries, electric vehicles, etc.)

Post implementation, similar to the process for Mandatory Half-Hourly Settlement for Profile Classes 5-8 (Modification P272), we will be able to provide further support to Ofgem in monitoring progress and providing assurance around new industry-wide processes to ensure market participant's business processes and practices are aligned to deliver the full range of consumer benefits enabled by smart meters.

In summary, recognising the ever-increasing importance of the ongoing energy industry changes to deliver the Government's ambition on the energy market transformation and on enabling the Clean Growth Plan and Industrial Strategy, we believe there is clear scope for us to contribute to this transformation as a trusted code administrator and operator and provider of policy support.

The attached diagram demonstrates the degree of overlap between Ofgem's FWP and our own 2018/19 Business Plan which was issued to industry for comment (receiving a positive response) and which is about to be approved.

ELEXON is keen to continue providing support to Ofgem's existing workstreams and to explore new opportunities to share our expertise and detailed knowledge of the GB electricity market arrangements, governance and central systems. One such area is making a better use of industry data. We are exploring additional data analysis opportunities under our ongoing review of Performance Assurance Framework (PAF) processes and procedures. One of our intentions is to inform and support Ofgem's and our own actions to help the wide range of industry participants (suppliers, meter operators, DNOs/iDNOs, etc.) ensure their processes and practices are aligned to deliver the full range of consumer benefits enabled by the smart meters.

If you would like to discuss any areas of our response, please contact Mark Bygraves, Chief Executive on 020 7380 4137, or by e-mail at mark.bygraves@elexon.co.uk.

Yours sincerely,

Mark Bygraves
CEO, ELEXON

Attached: ELEXON's support to Ofgem's key activities (by key priority area and workstream)

ELEXON's support to Ofgem's key activities

Priority 1: Enabling a better functioning retail market		Priority 2: Facilitating change in the energy system	
Workstream	Key activities in 2018-19	Workstream	Key activities in 2018-19
1 Temporary price protections	<ul style="list-style-type: none"> Amendments to supplier licence 	1 Future arrangements	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Smart systems and Flexibility Plan <input type="checkbox"/> Access reform and forward-looking charging <input checked="" type="checkbox"/> Future Electricity SO <input checked="" type="checkbox"/> Code Governance Reform <input checked="" type="checkbox"/> Brexit preparedness <input checked="" type="checkbox"/> Innovation Link
2 Appropriate conduct	<ul style="list-style-type: none"> Revisit 2013 Consumer Vulnerability Strategy Future Retail Regulation project 	2 Network charging and cost-recovery	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Targeted charging review <input type="checkbox"/> Gas Charging Review
3 Supply-side competition	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Future supply market arrangements 	3 Critical infrastructure and arrangements	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Half-hourly settlement <input checked="" type="checkbox"/> The rollout of smart metering and continuation of work to regulate the DCC
4 Consumer engagement	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> Faster, more reliable switching programme <input type="checkbox"/> Better data, better switching project (suppliers) <input type="checkbox"/> Prompts to engage and Check your Energy Deal (CYED) service 		
Priority 3: Ensuring network companies deliver for consumers in a changing system		Priority 4: Identifying opportunities and managing long-term risk on behalf of consumers	
Workstream	Key activities in 2018-19	Workstream	Key activities in 2018-19
1 Regulating monopoly network companies	<ul style="list-style-type: none"> RIO second phase Uncertainty Mechanisms Incentives Mid-Period Review (MPR) decision on the current electricity distribution price control (RIO-ED1) Annual Network Innovation Competition (NIC) 	1 Proactively engaging, monitoring and managing markets	<ul style="list-style-type: none"> Capacity Auctions <input checked="" type="checkbox"/> Proactive monitoring // REMIT
2 Driving competition where suitable	<ul style="list-style-type: none"> Development of alternative competition models for onshore transmission networks Continue to run competitive tenders Conduct a review of the cap and floor interconnector regime 	2 Maintaining and enhancing our industry specialist skills and capabilities	<ul style="list-style-type: none"> Centre of Excellence for Engineering & Technology <input type="checkbox"/> Professional competency frameworks Preparation for a possible role as the Competent Authority
		3 Continuing to provide an authoritative source of analysis and thought leadership	<ul style="list-style-type: none"> State of the Market Report 2018-19 Establishing a Research Hub Quality assurance, impact assessment and evaluation work
<p><input checked="" type="checkbox"/> Workstreams directly relevant to ELEXON operations</p> <p><input checked="" type="checkbox"/> Activities where ELEXON is involved (monitoring, supporting, providing input, providing facilities)</p>			