

July 31, 2018

Dear Rachel,

**Switching Programme – Proposed Modifications to Regulation and Governance**

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers<sup>1</sup>.

Please find ICoSS' response to the above consultation below.

**Chapter Two – Transitional Requirements**

*Question 1: Do you support our proposal to introduce a high-level duty upon licensees to cooperate, where appropriate, in delivering the outcome of a significant Ofgem-led programme, such as a SCR?*

While we understand the rationale behind this, the introduction of a high-level duty of this nature constitutes a significant addition to Ofgem's powers to essentially direct the future development of the framework within which the GB energy market operates.

We note the continued shift away from the approach in previous years whereby Ofgem allowed both the energy market and the associated governance framework to develop organically, while approving or rejecting proposed changes to that framework in accordance with its stated objectives.

We would recommend that powers to require market participants to co-operate in the implementation of changes originating with the regulator be used sparingly in order to avoid undue interference with the natural growth and development of the market as well as possible unintended consequences resulting from this.

*Question 2: Do you agree that the RECCo should be established earlier than REC v2 in order to assist with the successful delivery of the Switching Programme?*

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<sup>1</sup> :

If Ofgem is minded to proceed with the Switching Programme as currently outlined then it would seem appropriate to establish the RECCo shortly before the implementation of REC v2 in order to ensure that the appropriate governance is in place and the necessary charges can be collected from relevant market participants. However, this support is conditional upon the RECCo not being established well before the implementation of REC v2 as it would seem inefficient and unnecessarily onerous for this body to be collecting charges significantly before the date on which it will be required to carry out the governance function assigned to it as part of the development of the Switching Programme.

*Question 3: Do you agree that the bodies constituted under the REC could suitably play a formal part in the programme governance?*

This seems reasonable and is similar to the manner in which other industry codes operate.

*Question 4: Do you agree that our definition of “large supplier” in REC v1 is suitable for ensuring an adequate level of engagement with User Entry Process Testing?*

We agree that this is a suitable definition as suppliers meeting this represent the significant majority of GB domestic energy customers, the customer group most likely to derive significant benefit from the changes that the Switching Programme will introduce.

*Question 5: Do you agree that it would be appropriate to have in place interim governance arrangements prior to REC v2 coming into effect?*

We agree that it will be necessary to have some form of interim governance arrangements in place to provide an appropriate framework for the transition to REC v2 and the associated creation of RECCo.

### Chapter Three – REC Governance

*Question 1: Do you agree with the proposed powers and functions of the RECCo Board, REC Panel and REC Manager and how they would be distributed amongst them?*

The proposed split of powers and functions between the RECCo Board, REC Panel and REC Manager would seem to be appropriate, in particular the RECCo Board being ultimately responsible to the Authority for issues related to the REC.





*Question 2: Do you agree with our proposal that independent Non-Executive Directors (NEDs), potentially from outside of the energy industry, should be present on the RECCo Board and that the composition of the RECCo Board should be subject to thorough review, both periodically and/or whenever the scope of the REC/RECCo Board responsibilities changes substantively?*

This would seem reasonable provided that the independent Non-Executive Directors are given the necessary powers under the RECCo Board constitution to raise any concerns directly with the Authority where they deem this to be appropriate. We agree that it is necessary that the composition of the RECCo Board should be subject to thorough review on a periodic basis, particularly if membership of the panel is subject to appointment by Ofgem, Citizens Advice or any other statutory body.

*Question 3: Do you agree with the proposed composition, power and functions of the REC Panel?*

We are concerned that, under Model B, which Ofgem has indicated to be its preferred model, there is the possibility that unlicensed parties such as TPIs may have access to voting seats on the REC Panel. We believe it would be inappropriate for a party which is not licensed to be able to vote on REC Panel issues which are likely to affect the wider industry including other licensed parties.

To be clear, while we recognise that new categories of market participant not currently represented under existing code panel structures may be able to provide data and insights with the potential to assist in furthering the effective functioning of the market, we are strongly of the view that participants of this nature must be licenced before being able to take up voting representation on any industry code panel. Should this not be the case, perverse incentives may unintentionally be created whereby participants can vote on changes which they may not themselves be legally required to adhere to or affected by the implementation of.

We would appreciate further information as to how Ofgem intends to address this issue and whether it has any plans for introducing the licencing of the currently unlicensed activities which are proposed for inclusion in the REC Panel voting membership.





*Question 4: Do you agree that there should be entry and systems testing requirements placed on new entrants, comparable to those that we expect incumbent suppliers to undergo as part of the transition to the new switching arrangements?*

Yes, as any other approach would be likely to result in new entrants not being properly equipped to support the faster switching arrangements and navigate the technical requirements that these create. This would then be likely to create reputational and consumer confidence issues for the industry as a whole.

#### Chapter Four – REC Content

*Question 1: Do you agree with the proposed minimum content for REC v2 (as listed in Appendix 3)? Is there any other content we should consider for inclusion in REC v2?*

This seems reasonable.

*Question 2: Do you agree with our proposal that the REC Code Manager should collate Switching Domain Data and make it available to Market Participants? Or do you consider that the Data Master for each element of Switching Domain Data should make it available to Market Participants?*

We consider that the Data Master for each element of Switching Domain Data should make this available to Market Participants. Utilising existing channels of communication for this function should reduce the requirement for significant changes to REC Parties' systems and thus result in a lower level of associated cost.

*Question 3: Paragraphs 4.20 – 4.24 suggest that the DCC should be subject to a data quality objective and performance standards around the quality of REL Addresses. Do you have suggestions on the quality measure areas and levels quality measures will take? Do you believe that the REC Panel should have a role in setting these targets (initially and/or on a periodic basis)?*

We believe a good assessment would be to monitor the number of switches delayed beyond the timeframes established by the Switching Programme due to incomplete or poor quality REL Address data. We agree that it would be appropriate for the REC Panel to set these targets and then review these on an annual basis while taking into account performance in previous years.





*Question 4: Paragraph 4.25 outlines that the REL Address data quality indicator is currently intended to be an internal measure for the CSS. Do you believe there is value in making this available to other market participants?*

Yes, if performance in this area is to be subject to oversight as discussed in the previous question, it would seem appropriate for this information to be made available to all REC parties so that the performance of the DCC can be as widely visible as possible and any concerns raised at an early stage.

*Question 5: Paragraph 4.25 suggests that the DCC should set out the methodology it will apply to meet the REL Address data performance standards on an annual basis. Do you agree that it would be beneficial to make this methodology publicly available?*

Yes, it will be easier for the performance of the DCC in this area to be assessed and suggestions given to improve performance levels if the methodology is made publicly available.

*Question 6: Do you support the creation of an Enquiry Services Schedule in REC v2? If so, which of the options around the requirements (in paragraph 4.32) do you prefer?*

Given that other parties are already required to deliver ECOES and DES under the MRA and UNC as well as the fact that there does not appear to be any intention on the part of Ofgem to change this in the near future, we question the benefit that would be provided by the creation of an Enquiry Services Schedule at this stage. As the previously mentioned, ECOES and DES obligations will remain in the MRA and UNC until the longer-term migration of the relevant sections of these codes to the REC takes place and we believe it would also be premature to carry this work out ahead of REC v2 and that this it would be better to focus on REC v3 for the delivery of this should Ofgem still be inclined to do so at that time.

*Question 7: Do you agree with our proposal to create a REC Exceptions Schedule to be contained in REC v2, with the scope outlined in Figure 3?*

Please see our answer to Question 4.6 above. If it is Ofgem's longer-term aim post REC v2 to achieve full consolidation of the MRA and SPAA within the REC, we believe it would be





more appropriate for the REC Exceptions Schedule to be contained within REC v3 once this aim has been achieved.

*Question 8: Do you agree that the grey areas highlighted in Figure 3 should be out of scope of an Exceptions Schedule for REC v2?*

We agree that these areas could be considered to be of lesser priority than those currently considered for inclusion within the proposed Exception Schedule. However, please see our answer to Question 4.7 above.

*Question 9: A list of suggested content for a set of REC Technical Documents can be found in section 4.44. Do you believe that any of the content listed is unnecessary or is there any content that you would expect to be included?*

The proposed list seems comprehensive.

*Question 10: Do you believe that Table 1 captures all of the items that should become a REC subsidiary document?*

Yes.

*Question 11: Do you believe we have assigned the correct responsibility for producing each REC subsidiary document?*

Yes.

#### Chapter Five – The DCC Licence

*Question 1: Do you agree with the role we have set out for DCC during the DBT phase and steady state operations?*

Yes, as it should be more economically efficient for DCC to acquire the additional duties as part of its role rather than initiate a new tender and appointment process for the delivery of these functions.

*Question 2: Do you believe that our proposed drafting to amend LC 15 of DCC's licence would, if implemented, accurately reflect our expressed intentions?*



Yes.

*Question 3: Do you agree with our proposal to add new CRS specific price control terms? Do you think any of these terms are unnecessary or are there other terms we should consider adding?*

Yes. We agree that it is appropriate for all costs other than CRS External and Internal Costs to be set at zero unless otherwise directed by the Authority, following consultation with DCC, the REC Panel and REC Parties as appropriate.

*Question 4: Do you agree with the high-level programme outcomes we believe the programme should look to incentivise? Can you suggest further areas we should look to include and are there aspects you believe should be prioritised?*

ICoSS remains unconvinced that the potentially very limited benefits that the Switching Programme will provide to non-domestic customers, who can be prevented from switching suppliers due to being currently under contract, will justify the projected expenditure. We are therefore of the view that the focus should be the delivery of benefits to domestic customers with the majority of the associated costs borne by REC Parties active in that market.

#### Chapter Six – The SCR Process

*Question 1: Do you agree with the changes that we propose to make to the scope of the Switching SCR?*

We agree that the areas included, and those declared out of scope, seem reasonable.

*Question 2: Are there any further changes that you consider we should make, either to bring something into scope, or to explicitly rule it out of scope?*

No, the list provided seems comprehensive although we accept that there may be scope for further changes in the future and in relation to later versions of the REC.

*Question 3: Do you agree with our proposed approach of publishing the drafting of all SCR related changes circa Q1 2019, but waiting until systems have been proven through testing before submitting the proposals into the modifications process?*





Yes, it is essential that the necessary technical framework is in place and has been subject to rigorous testing before any associated code changes take effect.

I trust this response will prove useful, please do not hesitate to contact me should you have any questions or require any further information.

Yours sincerely,

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