Consultation

Switching Programme: Regulation and Governance - way forward and statutory consultation on licence modifications

Publication date:	15 October 2018	**Contact:**	Rachel Clark, Programme Director
		Team:	Switching Programme
Response deadline:	16 November 2018	**Tel:**	020 7901 3907
		Email:	switchingprogramme@ofgem.gov.uk

We are making changes to allow consumers to switch their energy supplier faster and more reliably. We are introducing the Retail Energy Code (REC) to make these changes happen.

This document fulfils a number of purposes:

- It summarises the responses received to our summer consultation and explains how we have developed our proposals in response to them.
- It contains the statutory consultation on licence changes to give DCC responsibility for building the Central Switching Service (CSS) and managing its operation in the early years, as well as to oblige industry parties to accede to the REC and to co-operate with the programme and any other launched Significant Code Reviews (SCRs).
- For context, it also provides as full and up-to-date a version of the enduring REC provisions as we can provide at this point in time, our current thinking on how the governance of the REC would work as well as the required changes to the DCC price control framework.

We expect this document to be of interest to all energy licensees whose licences will be changed to require them to co-operate with SCRs. The document presupposes a level of previous involvement with Ofgem's Switching Programme where appropriate, and refers to a wealth of previous technical design and regulatory decisions.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses and take them into account as appropriate in making any decision in respect of the REC and DCC price control framework. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at **Ofgem.gov.uk/consultations**. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark

the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Foreword

We are committed to making the energy market work better for consumers by improving their experience of switching, leading to greater engagement in the retail energy market. We are doing this by implementing a new switching process that is reliable, fast, cost-effective, and harmonises processes across gas and electricity. This will build consumer confidence and facilitate competition, delivering better outcomes for consumers. This document sets out our intention to make the licence changes for the introduction of a new industry code that will require industry parties to co-operate with Ofgem's Switching Programme (and with other launched SCRs). It constitutes the statutory consultation on these licence changes.

Our ambitions for the code that will make these future switching arrangements work – the REC – are no less ambitious than our ambitions for switching speed. We have been clear that we want it to be an innovative and best-in-class code. In this document, alongside the statutory consultation on proposed licence changes, we are providing more of an insight into what we mean by that and ask for your views. The following are the main innovations we are looking for out of the REC:

First, there is the code drafting itself. We want it to be written in plain English to make it as easy as possible to read and comply with. We are providing as much of the proposed actual enduring code text as we can at this moment in time in order to allow it to be tested and improved in pursuit of this aim. The straightforward language and good signposting of content also supports a further aim of ours for the code: we expect it to be digitalised at a future stage. Among other things, this should make it easier to trace through from policy decisions to licence conditions, code requirements and the relevant technical documents. In a number of sectors, the use of digital tools and technology is making regulation and compliance more efficient and effective. We want this code to be a part of that development.

Second, the REC has the potential to change the code landscape in the retail energy sector, providing an opportunity for consolidation and rationalisation of existing governance. Rather than adding a new code to the existing landscape, we anticipate that the REC will replace at least two of the current codes, the Master Registration Agreement (MRA) and the Supply Point Administration Agreement (SPAA), and potentially allow the simplification if not replacement of provisions in several others. This will allow for greater efficiency not only in code administration and management, but in compliance. This document sets out our high-level plans to achieve these improvements.

Third, and perhaps most importantly, we see the REC as an opportunity to create a new model for code governance that could transform the nature of decision-making in the sector. We see the proposed new Code Manager role – with powers to analyse, bring forward and prioritise code changes – as a way to drive innovation. We are also looking for ways to constitute the eventual Board of the REC Company and the Code Panel to make them more independent, and open, to challenge the status quo.

We look forward to hearing your views and working with you to make faster, more reliable switching, as well as our shared agenda for improved codes and governance a reality.

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Executive summary

We are committed to making the energy market work better for consumers by improving their experience of switching, leading to greater engagement in the retail energy market. We are doing this by designing and implementing a new switching process that is reliable, fast, cost-effective, and harmonises processes across gas and electricity. This will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

In February 2018, we published an Outline Business Case[1] setting out our decision to move forward with the introduction of a harmonised dual fuel CSS. In that document we also set out our plans to introduce a new REC to bring together the code requirements relating to retail energy activities and to govern the operation of the new switching arrangements.

In June 2018, we followed up by publishing a consultation on the next level of detail for the REC. This described our vision of the REC as a best-in-class code with the consumer interest at its heart. We set out the three stages of development for the REC:

- REC v1.0 will provide the transitional requirements on parties to play their part in the design, build and test of the new systems and processes for faster, more reliable switching.

- REC v2.0 will supersede and replace the transitional requirements with the enduring requirements to make the new switching arrangements work and provide governance for the parties involved at the time of go-live of the new systems and processes (now planned for mid-2021).

- REC v3.0 will incorporate relevant provisions from the MRA and the SPAA, providing a significant opportunity for code consolidation and rationalisation.

This document has a number of purposes:

- It summarises the responses we received to our summer consultation and explains our reaction to them.

- It sets out the statutory consultation on our proposal to modify standard licence conditions (SLC) in three ways, introducing new obligations as follows:
  - all licensed electricity and gas suppliers, electricity distributors and gas transporters (GTs) to be required to accede to and comply with the REC;
  - all holders of a licence granted by the Authority under the Gas Act 1986 or Electricity Act 1989 are required to cooperate with the Authority in implementing its conclusions of an SCR; and
  - making the Smart Meter Communication licensee (the DCC) responsible for overseeing the design, build and testing of the new systems and the early years of their operation.

- It provides the text of the first version of the interim version of the REC (REC v1.0).

- It provides as much of the intended drafting of the enduring REC (REC v2.0) as is currently practicable.

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[1] https://www.ofgem.gov.uk/publications-and-updates/switching-programme-outline-business-case-and-blueprint-phase-decision

- It provides information on our proposals for enduring REC governance. We intend this to be different from existing code governance: One of the key features is the creation of a REC manager function, an organisation with the responsibility and budget to facilitate and drive code innovation. Another important aspect will be the way the code panel is constituted to make it more independent from well-established supplier interests and better able to challenge the status quo.

- It provides information on our plans for code rationalisation through REC v3.0, simplification and consolidation by incorporating relevant provisions of the MRA and SPAA into the REC (or elsewhere, as may be appropriate) and facilitating the orderly winding down of those codes.

- It sets out and asks questions about the proposed framework of margin and incentives for the DCC going forward.

1. Introduction

What are we consulting on?

1.1.   This consultation sets out our intention to introduce a transitional version of the new REC (REC v1.0) under interim code governance. We are also consulting on licence changes to require parties to accede to the REC and to comply with it. These changes introduce a duty to co-operate with the Switching Programme and SCRs that Ofgem will launch in the future.

1.2.   We are also consulting on our decision to make changes to the Smart Meter Communication Licence ('DCC licence') by which DCC will be given the responsibility to manage the design, build and test of the new systems and processes for switching and their operation in the early years.

1.3.   Alongside the statutory consultations on the above, we are publishing as much of the enduring REC (REC v2.0) text as is currently available. This includes complete Schedules relating to the new CSS, incorporating comments received as a result of our June consultation. We have also published further Schedules which we anticipate will form part of the REC v2.0 that will come into effect when the new switching systems go-live in 2021. We invite comments on these documents. While we aim to baseline those Schedules that have been consulted upon, and which relate directly to the CSS at the time we designate REC v1.0, we will continue to engage with stakeholders on the development of the newer Schedules and those which we expect to implement as part of REC v3.0. We aim to complete all drafting for REC v2.0 and REC v3.0 alongside draft text for the consequential modifications to other Industry Codes by the end of March 2019, as detailed below. All drafting will be subject to consultation ahead of baselining.

1.4.   We expect REC v2.0 to benefit from governance that is different from existing governance, in order to enable more rapid innovation and challenge to the status quo. We are consulting on our governance proposals, which are set out in this document.

1.5.   We expect to create REC v3.0 by consolidating existing requirements on retail energy market participants from other codes, harmonising and simplifying them. We have set out some high level background on the potential content of REC v3.0 and are seeking feedback to help guide how we shape this material.

Chapter 2: Licence modifications

1.6.   Chapter 2 covers the statutory consultations on changes to electricity and gas licences. We set out our approach to the licence changes that create the REC, we propose that the REC provisions be inserted through modification of the currently unused Standard Condition 11 in the Gas Supply Licence, and inserted as new Standard Condition 11B of the Electricity Supply Licence, though we are open to views on whether an alternative may be more appropriate. We remain of the view that a duty to co-operate is needed to deliver faster, more reliable switching and future major programmes. We also propose to introduce and requirement on Distribution Network Operators (DNOs) and Gas Transporters (GTs) to accede to, and comply with, the REC. Finally, we set out our proposals to introduce the duty to co-operate requirement to all electricity and gas licences. In line with stakeholder requests we are setting out a definition of significant code projects that limit the application of this duty.

Chapter 3: REC v1.0: Transitional Switching Programme requirements

1.7. REC v1.0 provides strengthened governance for the Design, Build and Test (DBT) phase of the programme, learning lessons from previous programmes where we had to rely heavily upon "soft powers" with untested vires. It contains minimal drafting, and is intended to be sufficient for the full duration of the programme, incorporating lower level programme documents by reference, rather than itself being prescriptive.

1.8. In June we consulted on the introduction of REC v1.0, the transitional Schedule and interim governance. In Chapter 3 of this document we summarise the responses and describe our current position. The text of REC v1.0 is published alongside this document. We also provide further information on the timelines for developing the REC Company (RECCo) and its funding. Subject to consultation responses, we aim to direct the licence modifications before the end of this year, and designate REC v1.0 to come into effect early 2019.

Chapter 4: REC v2.0 Enduring REC Governance

1.9. In the June consultation, we explored ideas for enduring governance. These received a mixed response from stakeholders with support for, and challenges to, all models proposed. In chapter 4 of this document, we set out for consultation further thinking on enduring governance with respect to the role, responsibilities and accountabilities of the REC Board, the REC Panel and the REC Manager.

Chapter 5: REC v2.0 Enduring switching arrangements

1.10. In June, we published detailed draft REC Schedules. In chapter 5 we describe how these have been amended to reflect comments and provide information about further Schedules that have now been added. Both the revised and additional Schedules are being published alongside this document for consultation. We also ask some policy questions to help shape the remaining REC v2.0 Schedules.

1.11. It should be noted that whilst we seek to simplify code governance, this does not imply that there will be a one size fits all approach to the application of code rules and provisions. We must ensure that the regulations remain targeted and proportionate. The operational Schedules publish in June were and remain intended to apply to all energy suppliers, as they will all be required to interact with the CSS in a broadly equivalent way (unless their business model focuses exclusively on customer types that have been ruled out of scope for the switching programme, such as those directed connected to transmission networks). To the extent that any obligations we develop or revise as part of the remaining REC v2.0 or v3.0 drafting would apply to any category of party that has to date been exempt from such an obligation, we would expect to consult specifically on whether or not that is appropriate and consider responses prior to baselining that drafting.

Chapter 6: REC v3.0: Wider consolidation

1.12. We have made clear our intention to complete the migration of all relevant retail energy market provisions from the MRA and SPAA into the REC and facilitate the orderly winding down of those two agreements. In addition to reducing the number of codes to which relevant parties are expected to accede and comply, we are seeking to further reduce the regulatory burden by harmonising the current gas and electricity requirements into simplified dual-fuel requirements wherever practicable. Inevitably,

there will be some arrangements that will appropriately remain fuel-specific due to their underlying technical differences; we see no reason why the REC could not provide governance for such single-fuel arrangements.

1.13. Whilst we continue to make a distinction between the areas of drafting being taken forward as REC v2.0 and v3.0, this is largely to separate those which are to be given effect through the switching SCR and those which continue to sit outside of the scope of the programme and must therefore be implemented through alternative means. Our aim is to progress the development and, to the extent possible, the subsequent implementation of both of these packages at the same time.

Chapter 7: The DCC

1.14. Chapter 7 of this document covers the statutory consultation on changes to the Smart Meter Communication licence. We set out the proposed changes to the DCC licence which will extend DCC's role from procuring the new systems for faster, more reliable switching to managing the design, build and testing of the new systems and operating them in the early years.

1.15. We further present our proposals for the principles and framework for margin and incentives to be placed on DCC as part of its price control regime during design, build and test.

Chapter 8: The way forward

1.16. In chapter 8 we describe the process of further developing REC v2.0 and REC v3.0. We are seeking views on the merits of a further Significant Code Review to enable the delivery of REC V3.0.

Context and related publications

- Ofgem, Switching Programme: Publication of Design Baseline 4 (DB4), June 2018;

- Ofgem, Switching Programme: Proposed modifications to regulation and governance, June 2018;

- Ofgem, Switching Programme: Outline Business Case and Blueprint phase decision, February 2018;

- Ofgem, Delivering Faster and More Reliable Switching: proposed new switching arrangements: Consultation stage impact assessment, September 2017;

- Ofgem, UK Link and the proposed Central Switching Service, July 2017;

- Ofgem, Strategic Outline Case, January 2017; and

- Ofgem, Moving to reliable and faster switching: Switching Significant Code Review launch statement, November 2015.[2]

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[2] Further documents can be found in the associated documents sections of the documents noted above.

Consultation stages

1.17. Below are approximate dates for the statutory consultation on the licence modifications and REC v1.0:

- 5 June – 31 July: Policy Consultation

- 15 October – 16 November: Statutory Consultation

- Mid-December: Decision document and Direction

- Followed by: 56-day standstill period

- Early 2019: Modified licences and REC v1.0 come into effect

How to respond

1.18. We want to hear from anyone interested in this consultation. Please send your response to switchingprogramme@ofgem.gov.uk by 16 November 2018.

1.19. Where we are conducting a statutory consultation on licence changes, a formal notice will be sent, by post, to relevant parties. All responses, including to the notice of statutory consultation, should be sent to switchingprogramme@ofgem.gov.uk by 16 November 2018.

1.20. We have asked for your feedback throughout. Please respond to each one as fully as you can.

1.21. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.22. You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.23. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.24. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data

protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 6.

1.25. If you wish to respond confidentially, we will keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

1.26.   We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:

1.   Do you have any comments about the overall process of this consultation?
2.   Do you have any comments about its tone and content?
3.   Was it easy to read and understand? Or could it have been better written?
4.   Were its conclusions balanced?
5.   Did it make reasoned recommendations for improvement?
6.   Any further comments?

1.27.   Please send any general feedback comments to stakeholders@ofgem.gov.uk.

How to track the progress of the consultation

1.28.   You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations.

1.29.   Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming	▶	Open	▶	Closed (awaiting decision)	▶	Closed (with decision)
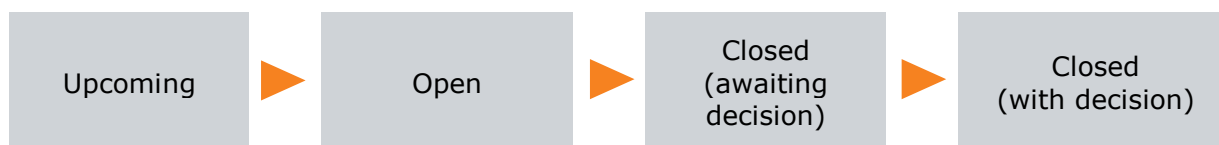
2. Licence modifications

Chapter summary

We have today issued a statutory consultation on our intention to modify relevant licences requiring accession to, and compliance with, the REC. This chapter gives further details on the changes we have made to the drafting we consulted on in June. Copies of the statutory notices are at Appendix 5.

We remain of the view that all licensees should be required to cooperate with relevant programmes that are sponsored by the Authority. We have therefore issued statutory consultations on our intention to modify all licences to this effect. In light of consultation responses, we have clarified the circumstances in which this duty would apply.

Introduction

2.1. As noted in our June document, we are at this stage seeking to make only those changes to licences that are required to establish the REC and to introduce the general duty to cooperate.

2.2. The availability of a dual fuel code that incorporates most, if not all, of the energy retail arrangements also provides an opportunity to further rationalise current licences. Whilst we should always strive to remove obligations that are no longer necessary, the development of a new code also provides potential opportunities to delegate matters currently set out in licence to a code level, thereby offering greater flexibility over future change and the prospect of industry-led change, rather than regulatory assurance and enforcement techniques. However, given the phased development of the REC, most if not all of these opportunities will arise from the further development of REC v2.0 and the implementation of future switching arrangements rather than now.

2.3. There are some future modifications to licences that we know will need to be introduced in due course. For instance, subject to the REC fully replacing the current SPAA provisions, we expect to be able to remove Gas Supply Licence Condition 30: Supply Point Administration Agreement in its entirety. It will though, remain an important part of the industry governance at least until the new switching arrangements go live and REC v2.0 comes into effect.

2.4. Some potential modifications may be less apparent and/or require development. For instance, we expect to propose new licence-based obligations around the use of annulments. We also intend to make changes to licences to reflect the shorter switching times and new obligations on suppliers relating to taking a customer back on terms equivalent to those they would have been on had they not left when a customer cools off a new contract.

2.5. It is also likely that the full potential impacts on licences will only become fully known once the drafting of REC v2.0 and v3.0 is complete. We therefore intend by the end of March 2019 to issue and consult upon our thinking on what the revised licence regime may look like, alongside the complete REC v2.0 drafting.

2.6. This statutory consultation therefore focuses on the immediate modifications required to licences, covering:

- obligations on all relevant licensees (including the DCC) to accede to and comply with the REC;

- a general duty upon all licensees (including the DCC) to cooperate with the Authority or any person it appoints in order to deliver a significant programme; and

- extending the role of the DCC through the DBT phase of the Switching Programme and into live operations of the new switching services.

2.7. The proposed modifications dealing with the DCC are set out in chapter 7.

2.8. Wherever possible we have sought to utilise existing conditions that can be adapted rather than further add to the volume of provisions within each licence, though in the case of gas interconnectors and gas shippers we acknowledge that their licences did not previously require accession to any code or have any reference to the significant code review process.

REC accession and compliance

1.62. In several cases the obligation to accede to and comply with the REC has simply required the REC to be added to an existing list of industry codes, though others have required something more bespoke. Below, we set out the approach we have taken to each modification.

Gas Transporters licence

2.9. We propose to add accession and compliance with the REC into GT SLC14, alongside the existing obligation in relation to the Supply Point Administration Agreement (SPAA). In order to reflect this wider scope of the condition we have renamed SLC14 "Compliance with core industry documents", bringing it into line with the electricity distribution licence, which is also held by several Gas Transporter licensees. In keeping with this approach, we have included a definition of "core industry documents" as meaning for the purposes of GT SLC14, the SPAA and the REC.

2.10. Whilst we expect all the operators of the gas distribution networks to accede to and comply with the REC, we did not intend this obligation to extend to National Grid (NG) National Transmission System (NTS). We have therefore inserted additional text into the proposed modification of GT SLC14, enabling us to direct that it be switched off, as follows:

"14.2 This condition shall cease to have effect in this licence on such date and to such extent as the Authority may specify in a direction given to the licensee."

2.11. We intend to do this immediately upon the condition coming into effect. This will exempt NG NTS from both the REC and from its current obligation to accede to and comply with the SPAA, which contains no provisions that are relevant to it. However,

SLC14 will itself continue to apply to NG, as that is the condition into which we propose to insert the duty to comply, as detailed below.

Electricity Distribution licence

2.12. Electricity Distribution licensees are already obligated to accede to and comply with several industry codes, as listed in Standard Condition 20. We have therefore added the REC to that list. The obligation to accede and comply with existing industry codes applies either from when the licensee offers to distribute electricity, or actually begins to do so, whichever is the earlier. As we are adding a new code to the list of which those already distributing electricity must comply, we have added a third option of the obligation applying from the date on which the code itself takes effect.

Gas and Electricity Suppliers licences

2.13. In the June document we suggested that, in keeping with the aim of minimal disruption to licensees, the proposed text for the REC licence obligations could closely mirror that of existing licence provisions that licensees would be familiar with.

2.14. We also recognised that much of the content of licence conditions becomes superfluous if reflected in the relevant industry code. Specifically, much of the drafting relating to the SCR process could be captured directly within the REC rather than first needing to be set out in the new licence condition. Given that the SCR process would in any case need to be set out within the REC change management Schedule, and could not be modified without our approval, this is the approach we have adopted.

2.15. The licence drafting in the statutory notice is therefore shorter than the version we informally consulted upon in June, though all text that has been removed has instead been provided for in the REC change management Schedule. There is no new, additional text.

Duty to cooperate

2.16. In addition to an obligation to accede to and comply with the REC, which will contain transitional requirements, our June document proposed to place a generic licence obligation upon relevant licensees to cooperate with certain designated programmes, specifically those which require large scale and mutually dependent systems changes. We considered that this would also ensure the good discipline of anticipating the need for such support when we embark upon a SCR or similar large scale programme.

2.17. The majority of respondents who specifically commented recognised the issues that have arisen during programmes such as Project Nexus and the Smart Metering Implementation Programme, and agreed that a duty to cooperate could go some way to mitigate these issues arising in future. However, some felt that the potential application of the duty was too broad, and could require licensees to undertake potentially onerous activities on any project whatsoever at Ofgem's behest. They suggested that Ofgem should have regard to such burdens and/or develop a risk based approach to this requirement.

2.18. We have tightened the drafting of the proposed duty such that it would only apply in circumstances where the Authority has consulted upon, and given formal notice of, matters being taken forward as part of a SCR. We would expect that all future consultations would, as they have done to date, specify why the Authority considered a

matter to be of particular significance in relation to its principle objective and general duties such that it warrants being progressed as a SCR. In developing the scope of such a SCR, it should be clear which code and therefore which licensees are, and are not, expected to engage in its successful implementation, as well as in what way and how they are expected to engage. So, although the licence drafting itself is generic, we do not anticipate the application of this duty to be a one size fits all. Rather, the requirements will be determined on a case by case basis. The duty would therefore be as follows:

"**Duty to cooperate**

[XX]   The licensee will cooperate, as necessary, with the Authority and/or any person(s) appointed by the Authority or appointed pursuant to a direction of the Authority, to undertake any planning, project assurance and/or coordination/systems integration in order to give full effect to the conclusions of a "**significant code review**".

[XX] Cooperation for the purposes of [a reference to the paragraph above] may include but not be limited to:

a)   the sharing of such information as reasonable, and constructive participation in industry engagement in order to undertake appropriate planning of changes to IT systems or industry standard operational processes system changes pursuant to the conclusions of a significant code review;

b)   the provision of such data as may be identified and reasonably requested in order to undertake testing and/or the population of any new central systems;

c)   the preparation and cleansing of such data as may reasonably be requested in order to facilitate live operation of the new central system;

d)   the provision of test scripts and results of any testing as may be requested by any person appointed to assure the success of any testing;

e)   all reasonable steps to:
   i)   meet key programme milestones for the completion of any action(s) assigned to the licensee;
   ii)   adhere to any remedial plan put in place to address any issues, delays or slippage that may impact the licensee's ability to meet programme milestones, to the extent that failure to do so may jeopardise the successful and timely implementation of the programme;
   iii) identify any dependencies that the licensee may have upon agents or other third-parties and secure the necessary support from such parties; and,
   iv)   promptly escalate and/or resolve any disputes that if unresolved may jeopardise the fulfilment of these obligations."

2.19. We propose that a new duty be inserted into the following licence conditions:

- Gas Transporters Licence - SLC 14;

- Gas Shippers Licence - SLC 18;

- Gas Suppliers Licence - SLC 11;

- Gas Interconnectors Licence – SLC 3;

- Electricity Generation Licence - SLC 12;

- Electricity Transmission Licence - SLC C19;

- Electricity Distribution Licence - SLC 20;

- Electricity Suppliers Licence - SLC 11B;

- Electricity Interconnectors Licence - SLC 3; and

- Smart Communications Licence - SLC 21.

2.20. As part of the duty to cooperate we also propose a new definition of a SCR, applicable to that general condition only. Whilst several of the licences already contain definitions of a SCR, they are specific to particular conditions and codes for which the licensee is responsible. For instance, whilst a SCR is defined in each of Electricity Distribution licence, Standard Conditions 21, 22, and 23, each related specifically to the licensee's obligations in respect of the Distribution Code, Distribution Connection and Use of System Agreement (DCUSA) or MRA. However, in order that future programmes proceed on a collaborative basis we consider it important that all relevant parties cooperate, not only those who are directly responsible for the relevant code. Therefore, for the purposes of the duty to cooperate, a SCR would be defined as meaning:

"a review of matters which the Authority considers are likely to relate to one or more of the documents referred to in this condition, or to which the licensee is required under this licence to be a party, and concerning which the Authority has issued a notice to the parties stating that the review will constitute a significant code review."

2.21. We consider that this definition should further address the concerns of possible scope creep mentioned above, ensuring that the duty will only apply to those programmes that have been consulted upon and subject to a formal notice, whilst also ensuring that parties fully engage, irrespective of whether they are the code owner. This definition, applied to all current licensees, would give a coverage of industry codes and agreements as shown in table 1 below:

Table 1: Coverage of industry codes and agreements

Licensees and Codes	STC	CUSC	BSC	DCUSA	MRA	UNC	IGTUNC	SPAA	SEC	Grid Code	Distribution Code	REC
Gas Transporters						■	■	■	■			■
Gas Shippers						■	■					
Gas Suppliers								■	■			■
Gas Interconnectors						■						
Electricity Generator		■	■							■	■	
Electricity Transmission	■	■	■							■	■	

Electricity Distribution	▉	▉	▉	▉	▉			▉	▉	▉	▉	
Electricity Suppliers			▉	▉	▉			▉			▉	
Electricity Interconnectors	▉	▉	▉						▉	▉		
Smart Communications								▉			▉	

Gas Shippers and Interconnectors Licence

2.22.   Whilst Gas Shippers and Gas Interconnectors are required to enter into bilateral agreements with Gas Transporters and/or accede to the Network Code as a practical necessity of doing business, neither is currently obligated under the conditions of their licences to accede to any of the industry codes referenced above. As such, there is currently nothing to explicitly bind them to implementing the conclusions of a SCR.

2.23.   In the case of Gas Shippers, their cooperation will be particularly important on any issue that requires changes to be made by the Central Data Service Provider (CDSP), given that they now have comparable responsibilities and authority over the development of CDSP services through the Data Services Contract, introduced following the Funding, Governance and Ownership review of Xoserve. Although Network Code is a defined term in the Gas Shippers licence and referenced in several standard conditions, none appeared to be directly relevant or appropriate to expand to incorporate the proposed duty to cooperate. We therefore propose to take the opportunity to remove a long defunct condition relating to the implementation of the Utilities Act 2000, and repurpose it as the duty to cooperate with the conclusions of SCRs.

2.24.   Gas Interconnectors are required to enter into bilateral agreements with Gas Transporters, where the latter requires them to do so. These agreements may take the form of a Connected System Exit Point (CSEP) agreement and/or Network Entry Agreement (NEA). Whilst CSEP agreements and NEAs are not part of the UNC, they may be subject to modification through the UNC.[3] As such, it is possible that they may be within scope, albeit indirectly, of the conclusions of a future SCR. Whilst we acknowledge that there is a relatively low likelihood of issues concerning interconnectors being progressed through an SCR, we cannot entirely rule out the possibility. Given this, we consider that it would be appropriate to include the duty to cooperate within SLC3 of the Gas Interconnectors licence, maintaining that link with such bilateral agreements as may be in place between the licensee and relevant Gas Transporter(s).

Electricity Generation Licence

2.25.   As with the Gas Shipper licence, we propose to take the opportunity to repurpose a defunct standard condition relating to the implementation Utilities Act 2000. We propose to delete the current provisions within SLC18: Change Co-ordination for the Utilities Act 2000, and instead insert the duty to cooperate. This will relate to any of the Industry Codes to which the licensee is a Party or otherwise required to comply.

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[3] For instance, UNC352 introduced a new interruptible reverse flow service at the Moffat Interconnector.

<u>Electricity Transmission Licence</u>

2.26. We propose to insert the duty to cooperate into the currently unused standard condition C19. As with the Electricity Generation licence, the duty to comply will relate to those industry codes that are subject to a SCR and to which the licensee is a Party or otherwise required to comply. For the purposes of this condition we have listed those industry codes.

<u>Statutory Notices</u>

2.27. The formal notices of our intention to modify these licences have been mailed to the registered addresses of each licensee and posted on our website, alongside this document. For convenience, links to them are provided in Appendix 5.

3. REC v1.0: Transitional Switching Programme requirements

Chapter summary

In our June consultation we provided draft text for the REC main body (v1.0), the transition requirements and associated interpretations Schedule, that related directly to the development of the CSS and relevant parties obligations with respect to test, data preparation and data migration. This chapter sets out the changes that we have made to that drafting in light of consultation responses.

Having consulted upon the text and incorporated comments where appropriate, we are not looking for further comments on those v1.0 documents at this stage. We consider it important that licensees have certainty of the REC v1.0 text that will, subject to consultation responses on the proposed licence modifications, come into effect at the time we direct the licence modifications.

Any further changes proposed to the REC will either be taken forward as part of the development of REC v2.0, or if directly relevant to the DBT phase of the programme, may be progressed as a Change Request to be determined through Switching Programme governance, as set out in Appendix 4.

REC interim governance

3.1. REC v1.0 has been created solely to provide strengthened governance for the DBT phase of the programme, learning lessons from previous programmes where we had to rely heavily upon "soft powers" with untested vires. It therefore contains minimal content, and is intended to be futureproof, incorporating lower level programme documents by reference, rather than itself being prescriptive. Therefore, whilst REC v1.0 will contain obligations with respect to, for example, participation in testing, the detailed test plans will form a separate document, capable of revision by the programme board rather than requiring a REC modification.

3.2. We therefore do not anticipate that any modifications will be required to REC v1.0 post-designation. However, for the avoidance of doubt and as a safeguard against any unforeseen requirement, REC v1.0 will set out some simple change control processes which utilise existing structures where available. For instance, given that any change decisions required during this period will be subject to programme governance, we do not anticipate standing up an interim REC Modifications Panel. Instead, REC v1.0 will incorporate by reference the change control procedures established under Switching Programme governance. Therefore, should any party consider it necessary to modify anything within REC v1.0, that proposal would be progressed as a programme Change Request, in the same way as, for instance, any change to baselined end-to-end design documentation. This change process is set out in further detail in Appendix 4.

3.3. We anticipate that this programme change control would continue until such time as we give effect to the SCR modification, which we anticipate will be at the point of go-live for the CSS and the new switching arrangements. At this point the transitional requirements Schedule will be redundant and it, along with the interim REC governance, will be overwritten in its entirety with REC v2.0 which will contain its own change management procedures.

3.4. Whilst we intend to put in place RECCo governance that will be effective in the long-term, for instance incorporating some of the principles and best practices of the UK corporate governance code, it also is likely to have a relatively limited role, more suited to a predominantly outsourced model, at least in the early years. We are therefore looking to identify appropriate means of enshrining the principles of company governance we'd expect to see in a larger firm, but in such a way that they can take effect as the company scales up, rather than imposing disproportionate administrative cost in the short-term. We are particularly keen to ensure that the costs of administering the REC are, as far as practicable, offset by savings made on administering the SPAA and MRA, rather than substantively adding to them.

3.5. Our June document also proposed use of an interim RECCo Board until such time as there is sufficient business for the enduring RECCo Board to be fully constituted. We anticipate that this will take place in the immediate build up to go-live. Whilst there was support amongst respondents for existing SPAA Ltd and MRASCo directors to act in this capacity, this must be a decision for the individuals concerned (and their employers). It was also suggested that we should augment any interim RECCo Board with independent members. We have had several expressions of interest and will pursue this with the individuals involved and share details more widely in due course.

3.6. The optimum timing for appointment of the REC Manager is yet to be determined, though we consider that there are a number of actions that must first be completed before this will be possible. In particular, we consider that the REC must be designated and the interim RECCo Board formed with secure revenues, before the contract can properly be let. This would suggest April 2019 at the earliest, though work on the early stages of the procurement can proceed in advance of this. We will develop a more detailed plan for the key REC implementation activities over the next few months and make this available to stakeholders.

3.7. In order to minimise the burden upon RECCo Board directors and, more importantly, to ensure a wider pool of expertise and interests, we also propose to establish a procurement panel that will develop the documentation and advise the interim RECCo Board. It should be noted that we will progress the development of the RECCo and any work on procurement entirely separately to the development of the REC itself, so as to avoid any real or perceived conflicts arising.

3.8. We do not consider that it is necessary (or indeed feasible) to appoint the REC Manager in advance of REC being able to fund itself. We believe that the initial issuing of REC invoices can be done efficiently alongside the code accession process and therefore we currently intend to undertake this activity ourselves on behalf of RECCo.

3.9. We consider it important that prior to any invitation to tender for the REC Manager role being issued, we clarify as far as practicable what will be required, not just in the longer term when REC v2.0 goes live, but also more immediately throughout the DBT phase. This will ensure that that services and dedicated resources can ramp up as and when required. For instance, we envisage that once the REC Manager is in place, they will support the RECCo Board (and procurement panel where appropriate) and ourselves in further and ongoing activities such as:

- Procuring a REC website (which may also assist with communication of programme-related material);

- Co-ordinating ongoing maintenance of the REC drafting throughout the SCR period;

- Development of a REC digitalisation strategy; and

- Overseeing the collection and distribution of funds (recovery their fees, those of the programme coordinator, legal support, etc).

3.10. It may not be possible to provide an exhaustive list of transitional and enduring activities expected of the REC Manager until the full scope and content of the REC itself is known. We expect the drafting of REC v2.0 and v3.0 to be completed by the end of March 2019. The completion of this drafting could determine, for instance, which provisions the REC Manager will be expected to administer and/or which contracts need to be let and subsequently managed.

Transition Schedule

3.11. As set out in the Outline Business Case and our June document, we consider that industry participants will need to cooperate fully and effectively with all relevant aspects of the programme before, during and after the DBT phase in order to ensure that they are ready to interact with the CSS when it goes live. This is a prerequisite for the successful implementation of the new switching arrangements. This latter phase of a change programme has not traditionally been an area that falls within our purview, beyond the requirement on obligated parties to meet any deadline we may set. However, we consider that appropriately targeted and agile regulatory underpinning of transitional requirements will ensure that activities are undertaken as Scheduled, and that issues are resolved when they arise.

3.12. The June document referred to the fact that we intended to procure programme management and assurance expertise to support the delivery of the programme, and to source funding from licenced parties, specifically via the SPAA and MRA, until such time as the REC comes into effect. This funding has now been agreed by the SPAA and MRA executive committees and we are grateful to them for their support.

3.13. This chapter therefore summarises the transitional requirements that will be given effect through REC v1.0, and with which we expect parties to the REC to comply. Adherence to these transitional requirements will be underpinned by licence obligations, both in terms of the obligations on parties including the DCC to comply with the code, and through a more general duty to cooperate, as set out above.

3.14. We published the draft transitional requirements in full as a subsidiary document to the consultation. Few respondents commented directly on the transitional requirements Schedule, but those comments that were received were useful in identifying areas where further clarity was required. Generally, we consider that the lack of comment was reflective of the fact that the transitional requirements were designed to be at a relatively high level, with substantive content being set out in subsidiary documents incorporated by reference.

3.15. The designation of REC v1.0 together with the coming into effect of licence modifications that bind parties to the REC will not only facilitate programme assurance, but provide clarity and certainty to stakeholders, particularly those who will be required to make changes to their own systems. In order to maintain this certainty, we would not expect to make any modifications to the transitional requirements Schedule itself, though the referenced documents may be revised from time to time. In either case, this would be progressed as a formal programme change request as set out in Appendix 4 with the impacts upon the programme and systems development being fully assessed before any decision is made.

Funding

3.16. In the June document we set out our expectation that the RECCo would be in a position to issue invoices and take over the responsibility for funding certain programme contracts and services, such as the Ofgem delivery functions, by the start of the 2019/20 financial year. This remains our intention, and with the publication of this document, and subject to consultation responses, we are on track for the REC related licence conditions to take effect and REC v1.0 to be designated by the end of January 2019. We consider the subsequent two-month period to be adequate to give formal effect to the establishment of the RECCo, for which we will continue to undertake preparatory work for in the coming months.

3.17. Acting as in lieu of there being governance bodies, we intend to issue a draft 2019/20 REC budget, to be consulted upon. This draft budget will of necessity be based largely on estimates rather than a firm forecast, though it is our intention to have appointed the Programme Coordinator by the start of 2019, so may be in a position to provide forecasts or an agreed Schedule of charges for this activity within the final REC and/or SPAA and MRA budgets.

Establishment of RECCo

3.18. The formation of the RECCo in its enduring form is not currently time critical to the programme. Interim arrangements will provide adequate governance for the transitional period, when most of the activities that would ordinarily fall to the code will remain under the programme. For instance, as mentioned above, we do not expect any modifications to the transitional requirements, and they would in any case be subject to change requests to be decided upon by the Switching Programme. Although it will probably be necessary to complete certain procurement activities, such as the REC Manager and the REC website, the interim RECCo Board will suffice as the contracting vehicle.

3.19. Whilst we cannot be prescriptive on the timing of certain commercial activities at this time, we recognise that some stages are effectively a pre-condition of later progress. We set out a summary of these stages and their approximate timing below:

1. Licence modifications take effect (early 2019)

2. REC v1.0 (transitional requirements and interim governance) designated (early 2019)

3. Interim Directors formally appointed to RECCo (late January)

4. Complete registration of RECCo for VAT purposes,[4] add directors to bank accounts, etc (mid-February)

5. Issue invoices for forecast REC contribution to funding parties in advance (mid-February)

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[4] If registering on a voluntary basis (prior to mandatory threshold being passed), we must show intent to trade; HMRC will normally request invoices that have been paid by the company as proof that the application is for legitimate purposes. We will explore whether existence of licence and code fulfils requirements – though at worst a small amount of VAT from Q1 invoices may be irrecoverable.

6. REC takes over responsibility for funding agreed programme costs, such as Programme Coordinator – 1 April 2019.

3.20. We are aware that the nature of the company required to discharge the immediate programme and REC v1.0 requirements may be very different to the one required to take forward the REC in the longer term. We would therefore expect to further develop our thinking, and consult upon, RECCo governance arrangements as part of the development of v2.0 and v3.0.

3.21. Part of the rationale for the early procurement of the REC Manager is to assist us with the transition to the full version of the REC, incorporating all relevant provisions from the SPAA, MRA and elsewhere. We fully anticipate that the interim RECCo Board and any REC Manager would collaborate with us during the DBT phase. However, we consider that embedding these requirements into REC v1.0 at this stage will give greater certainty to stakeholders. We propose that these requirements will include, but not be limited to:

- Funding of programme specific support services such as the Programme Coordinator;

- Procurement of enduring services in advance of REC v2.0 implementation;

- Maintenance of a website that pulls together all REC and programme specific documentation in one place (which may require links to DCC and Ofgem websites); and

- Maintenance of the SCR drafting

3.22. We set out our proposals for the enduring governance of the RECCo and REC in Chapter 4.

4. Enduring REC Governance

Chapter summary

In the June consultation document we set out proposals for the enduring governance of the REC. This chapter contains further developed thinking on the main governance bodies, The RECCo Board, the REC Manager and the REC Panel, as well as the Performance Assurance Board and the change management process.

Questions:

Question 4.1: We would welcome views on whether Ofgem should have an ongoing role in ratifying RECCo Board appointments after the appointment of the first board.

Question 4.2: We would also welcome views on whether the REC parties should have a role in ratifying the first and/or subsequent boards.

Question 4.3: Do you agree that the REC should place less reliance on face to face industry meetings for modification development and instead empower the REC Manager to develop and analyse proposals, procuring expert support as and where required?

Question 4.4: Do you consider that a recommendation to the Authority should be made by the RECCo Change Panel, with reference to the REC relevant objectives, or based on a vote of REC parties?

Question 4.5: Do you, in principle, support the approach to performance assurance outlined?

4.1.   The REC drafting related to governance published in subsidiary documents to this consultation is purely intended to make REC v1.0 work. This does not reflect the enduring governance we are intending to set up. REC drafting for the enduring governance (for REC v2.0) will need to be created, as our thinking on the enduring governance develops.

4.2.   In June, we set out the enduring governance structure that we expect to take full effect at or ahead of the time when REC v2.0 is implemented. This was intended to illustrate a rebalancing of roles and responsibilities, strengthening the roles of the RECCo Board and the REC Manager, while diminishing the influence of the RECCo Change Panel. It was also intended to strengthen accountability at all levels.

4.3.   The roles and responsibilities were outlined in the June consultation document, so not repeated at length here. Instead, we provide a high-level account of the accountabilities of each group or body and – in response to stakeholder requests – explain how we have updated on our thinking on how these bodies will be appointed.

4.4. The operation of the REC will be the responsibility of RECCo. This means that RECCo will have accountability for ensuring the delivery of all services required by the REC, monitoring compliance by all parties with the requirements of the REC and development of the REC itself through changes to the code. RECCo will be established with a mission statement and objectives to ensure it is focussed on overseeing a well-functioning market that delivers good outcomes for consumers. We set out a draft mission statement and objectives in the June consultation and we are not proposing any changes to these at this point.

The RECCo Board

4.5. The accountability of RECCo will be discharged by the RECCo Board. In the June consultation we set out some principles to govern the composition of the RECCo Board, and these were largely supported by respondents. We are not proposing any changes to these principles.

4.6. The RECCo Board will set the strategic direction of the REC, oversee the executive function of the REC (the REC Manager) and have ultimate accountability for all decisions and actions of RECCo.

Composition and Appointment of the RECCo Board

4.7. We do not currently have detailed proposals for the composition of the RECCo Board. We consider that the RECCo Board will require a range of skills, experience and expertise and this could be obtained in a variety of ways. We propose to establish a nominations committee that would be tasked with recruiting and appointing an appropriate mix of suitably qualified RECCo Board members. We are currently developing our thinking on the composition of the nominations committee.

4.8. With regard to the appointment of the first RECCo Board, we consider that Ofgem should ratify the appointments proposed by the nominations committee. Ofgem's role in ratification would be to ensure that the requisite mix of skills, expertise and experience is represented. We would welcome views on whether Ofgem should have an ongoing role in ratifying RECCo Board appointments after the appointment of the first RECCo Board. We would also welcome views on whether REC parties should have a role in ratifying the first and/or subsequent RECCo Board appointments.

> **Question 4.1: We would welcome views on whether Ofgem should have an ongoing role in ratifying RECCo Board appointments after the appointment of the first board.**
>
> **Question 4.2: We would also welcome views on whether the REC parties should have a role in ratifying the first and/or subsequent boards.**

RECCo Board Accountability

4.9. RECCo will be accountable to Ofgem for delivery against its objectives and to REC parties for the operation of the REC. Accountability to Ofgem would be achieved through the provision of an annual report to Ofgem, in which the RECCo Board sets out how it has delivered its objectives for the past year, and establish its objectives for the year ahead. Ofgem may choose to comment on this report, in particular if we feel that the RECCo Board is failing to deliver its objectives effectively. Accountability to REC

parties will be achieved through approval of the RECCo budget enabling RECCo to carry out its work programme for the year.

4.10. The RECCo Board will be supported by the following bodies, each of which is described in more detail below:

- The REC Manager – will provide the operational and executive function of the REC;
- The RECCo Change Panel – will oversee the decision making process for changes to the REC; and
- The REC Performance Assurance Board – will consider risks associated with the operation of the REC and monitor compliance by REC parties with the requirements of the REC.

REC Manager

4.11. This is the executive function of the RECCo. We set out our expectations for the REC Manager's role in the consultation in June, and have evolved our thinking since then. The REC Manager is appointed by, and accountable to, the RECCo Board. The REC Manager will be responsible for all RECCo functions, including practical and administrative support to the RECCo Board, including, but not limited to:

- Ensuring accessibility of the REC, including through digitalisation;
- Management of RECCo service contracts
- Operation and management of the REC change process, including development of change requests through appropriate analysis and consultation
- Support for the REC Change Panel and the REC Performance Assurance Board
- Preparation of the RECCo budget for the RECCo Board
- Invoicing RECCo parties and management of RECCo finances.

Nature and appointment of the REC Manager

4.12. It is for the RECCo Board to determine how the REC Manager function is sourced. We envisage that in the early days, at least, this will be a contracted function. However, the RECCo Board might choose to provide the REC Manager function in-house, or to operate a mix, with some elements of the function provided in-house and other elements contracted out. The RECCo Board will need to ensure that the function is provided in a manner that is economic and efficient.

REC Manager Accountability

4.13. The REC Manager will be accountable to the RECCo Board for the execution of the RECCo Board's strategy and work programme. It will work with any parties that want to modify the REC to develop and assess the impact of change proposals. It will then work these up to a state where the RECCo Change Panel can take decisions on them, parties can vote on them and proposals can be passed to the Authority, as appropriate.

4.14. In the June consultation, we provided draft text for a mission statement and objectives for the REC Manager. We are not currently intending to provide an updated proposal for those. We are considering the process for setting the initial mission statement and objectives – in the first instance probably to be set or approved by Ofgem – and for changing them in the future. As this would be a significant change in REC governance, an Authority role in any changes would be likely.

RECCo Change Panel

4.15. The RECCo Change Panel is responsible for reaching decisions on changes to the REC, where this is within scope, and recommending decisions on changes to the REC to Ofgem where appropriate. More detail on the change process is set out below. In the June consultation we envisaged a role for a REC Panel that went wider than change and included, for example, a role in setting the budget. We have developed our thinking on this and are now proposing to restrict the role of the RECCo Change Panel to managing change of the code.

Composition and Appointment of the RECCo Change Panel

4.16. The RECCo Change Panel will be appointed by the RECCo Board, and will require a mix of expertise. In the June consultation we set out our views on the composition of the REC Panel and the need for it to be able to draw on ad hoc expertise when required. We are not currently proposing any changes to what we proposed in June.

RECCo Change Panel Accountability

4.17. The RECCo Change Panel will be accountable to the RECCo Board and the Authority for driving forward the decision-making processes on modification proposals in a way that gives effect to the RECCo strategic objectives and the code objectives.

The RECCo Performance Assurance Board (PAB)

4.18. The PAB has a responsibility for monitoring compliance with, and managing risk under, the REC. The role of the PAB is set out in more detail below. Further detail on the wider performance assurance arrangements is described at the end of this chapter.

Composition and Appointment of the RECCo PAB

4.19. The PAB will be appointed by the RECCo Board. We are still developing our thinking on the composition of the PAB.

RECCo PAB Accountability

4.20. The PAB will be accountable to the RECCo Board for monitoring performance by REC service providers and REC parties. Where appropriate, the PAB will put in place remedial action and/or sanctions. Where the PAB concludes that changes to the REC are required to mitigate systemic risks it will be able to instruct the REC Manager to develop and raise an appropriate code modification.

Change Management

4.21. In its report on the energy market, the Competition and Markets Authority found that the current industry codes governance regime creates an Adverse Effect on Competition (AEC) through limiting innovation and causing the energy markets to fail to keep pace with regulatory developments and other policy objectives. The key features were:

- parties' conflicting interests and/or limited incentives to promote and deliver policy changes; and

- Ofgem's insufficient ability to influence the development and implementation phases of a code modification process.

4.22. These themes have been echoed in subsequent work on the Ofgem Future Supply Market Arrangements project, which amongst other things identified problems with:

- Constraints on new business models – current regulations preclude disruptors from taking on certain aspects of the traditional supplier role without also taking on wider regulatory responsibilities and burden; and

- Regulatory complexity – a costly barrier for innovators to overcome, particularly if they want to trial a new approach/business model. Incumbents have the incentive and ability to constrain reforms to industry processes (set in codes).

4.23. In developing the REC change management process, we have had regard to these concerns and sought to address them. The code modification process is fairly standard across each of the current industry codes – and there has been a push for greater alignment in recent years through the Code Administration Code of Practice (CACoP). In developing the REC change management procedures, we have therefore sought to maintain consistency with the general steps set out in the CACoP, but to improve its efficiency and effectiveness, and reduce its reliance on existing industry participants, for instance by providing a greater role for the REC Manager, which will be suitably empowered and resourced to fulfil that role.

4.24. We have not published an update on the proposed REC change management Schedule since the June consultation. We will develop it in line with our thinking on governance. Below is a summary of the key aspects, which we believe will achieve better outcomes for parties and consumers.

<u>Raising a modification</u>

4.25. Each of the industry codes sets out who has the right to raise modifications to them. For the most part this is restricted to code parties only, though in recent years' rights have also been assigned to consumer representatives, albeit usually with restrictions. Given the consumer facing nature of the arrangements to be governed by the REC, we consider that consumer representatives would have a legitimate interest in the code in its entirety and as such, should not be restricted in the ability to raise modification proposals. However, as with those proposed by any other party or permitted stakeholder, they would need to pass through the same development process and subject to approval mechanisms, further outlined below.

4.26. In addition to the unfettered ability of Parties and consumers' representatives to raise modification proposals, we consider that this should be extended as appropriate to:

- the REC Manager;

- the Authority (or a person acting at the direction of the Authority) in respect of the conclusions of a SCR; and

- a person representing the interests of such category of persons as may be designated for this purpose by the Authority.

4.27. As noted above, we consider that the REC Manager should have a more proactive role in ensuring that the REC meets, if not exceeds, the objectives set for it and works towards fulfilling its mission statement. In doing so, there will be areas which it is specifically empowered to take necessary actions, and others where it will work collaboratively with bodies under the REC governance, and/or Parties and external stakeholders. We therefore envisage that the REC Manager would be able to raise a REC modification, including where instructed to do so by:

- o the RECCo Board;

- o the RECCo Change Panel; or

- o the REC Performance Assurance Board.

4.28. The REC will, as with other industry codes, be subject to SCR provisions on an enduring basis. These provisions allow for the Authority to direct a licensee to raise modifications required to give effect to its conclusions, or to do so itself. We are considering creating the ability for the Authority to raise individual change modifications outside of an SCR.

4.29. We also consider that it would be prudent to future proof the REC by providing for a person or organisation representing the interests of wider stakeholders to be designated by the Authority as being able to raise REC modifications. This could, for instance, allow for a representative of a specific niche of consumers to be identified and given a role under REC commensurate to that of Citizens Advice. This could also appropriately allow for organisations that are not themselves Party to the REC but nonetheless have a legitimate interest in, or are indirectly subject to, the provisions it governs to raise REC modifications. For instance, to the extent that the REC will accommodate metering codes of practice and/or seek to provide assurance of metering related activities, it would seem appropriate for those organisations to be enfranchised, rather than having to rely on their contractual relationships with suppliers to effect change. Equally, parties looking to provide new or innovative services could be empowered to propose changes that would enable them to operate.

Modification development and prioritisation

4.30. Currently, the extent to which the development of a modification proposal is both robust and timely, is largely dependent upon the effectiveness of the modification workgroup. The individuals who sit on these groups are generally self-selected from those organisations with both an interest in the proposal, and the ability to provide resource to them. Of course, those interests may or may not be aligned with those of the proposer.

4.31. Even without the conflicting interests of attendees, the limited frequency of these meetings, fitting in and around attendees' diary commitments, the reliance on parties to take and fulfil actions on a goodwill basis between meetings, and the sheer volume of proposals means that progress can be slow. It is not unheard of for complex or contentious proposals to be in development over a number of years. The quality of the modification report can also vary, and they generally lack any quantitative assessment of the proposal, both because the code administrator is unable or not empowered to

produce it, and because workgroup attendees and consultation respondents are reluctant to share company specific data.

4.32. We aim to reduce these timelines and ease the burden on code parties, particularly smaller participants who tell us they struggle to participate in these face to face development work groups, by reducing the reliance of the modifications process upon them. These problems are compounded when the proposal would be disruptive to the status quo, where the majority of attendees may have limited or conflicting incentives to promote and deliver change.

4.33. We aim to empower the REC Manager so that they can undertake a more proactive approach to the development of modification proposals, and one which is less dependent upon industry parties. For instance, the REC Manager would have discretion to:

- Undertake offline development and analysis of proposals, working to timelines determined by the circumstances relating to the proposal (and its relative priority with regard to other proposals);
- Prioritise the programme of modifications being worked through at any one time;
- Procure subject matter expertise, advice and analysis as required; and
- Engage with stakeholders who may not otherwise participate in the workgroup process, such as smaller players or those in related markets, or those looking to enter the market.

4.34. Workgroups could continue to play an important role insofar as providing a steer to the REC Manager, having input into the ToR of the development and analysis, etc. We would also see the workgroup as having input into, but not the final say, over the draft modification report. For instance, confirming for the purposes of the report and for the information of the RECCo Change Panel, that the ToR have been met. This could also include an initial recommendation, as happens in the BSC. However, depending on the requirements of the particular proposal, these activities may be undertaken offline as a peer review of draft documentation, rather than necessarily a face to face meeting. Again, the REC Manager would have discretion over the mechanics of the process to be followed, taking on board feedback from the RECCo Change Panel and interested parties.

4.35. The draft modification report would be presented to the RECCo Change Panel by the REC Manager, who retains ownership for its quality, albeit being neutral with respect to any interim recommendation. The RECCo Change Panel will be able to question the REC Manager on the process followed and seek confirmation that the areas of development and analysis identified in the ToR have been fulfilled and as far as reasonable, provide a complete picture on which voting parties can make their own recommendation or decision. If any issues have been encountered and not fully addressed and/or the REC Manager considers that more development time is required that originally agreed, they should make this case to the RECCo Change Panel, who may amend the timetable and re-prioritise work as appropriate.

4.36. The result should be a better evidenced draft report, completed in a shorter timescale, upon which parties can then make better informed decisions or recommendations.

Question 4.3: Do you agree that the REC should place less reliance on face to face industry meetings for modification development and instead empower the REC Manager to develop and analyse proposals, procuring expert support as and where required?

Decision making

4.37. In the June consultation document, we set out that we wanted to see proportionate change management processes that allowed for a self-governance route, particularly for non-complex changes, and a different route for proposals that require Authority approval. As with the current codes, we expect that the majority of modifications proposed to the REC will be capable of being determined by industry parties themselves on a self-governed basis. A proposal that is considered to be sufficiently material to require the approval of the Authority would, as now, first receive a recommendation on whether or not it should be implemented.

4.38. Under some of the current codes, the recommendation is made by a Panel, with reference to the same relevant objectives that the Authority's decision must be based on, ie a modification can only be directed to be implemented if it would further those relevant objectives. However, in the case of codes such as the SPAA and DCUSA, this recommendation follows or is replaced by a code party vote.

4.39. We consider it important that as far as practicable, the decision making at each stage is based on the same criteria, ie that the modification meets the relevant objectives of the REC. In the case of proposals that follow a self-governance path, this recommendation or vote is replaced with a determination.

Question 4.4: Do you consider that a recommendation to the Authority should be made by the RECCo Change Panel, with reference to the REC relevant objectives, or based on a vote of REC parties?

4.40. The REC change management Schedule will set out the criteria for modifications that are expected to be submitted to the Authority for approval. (A draft version of this was published with the June consultation and this will develop further in line with our thinking on governance.) Where proposals are to be submitted to the Authority we consider it important that the assessment of those proposals is aligned at each stage, ie that the relevant REC governance bodies make recommendations based on the same relevant objectives that the Authority will make its decision.

4.41. We also consider that where the Authority is the recipient of a modification report, it must be given all the information that it reasonably requires in order to make a proper decision. In these circumstances, simply knowing how popular the proposal may be amongst REC parties, as provided for by a vote, is of limited value. We consider that it is important that the rationale is fully understood.

4.42. We therefore consider that any final modification report that is submitted to the Authority for a decision should include a REC Change Panel recommendation.

Performance Assurance

4.43. Performance assurance is a common part of internal and contract management, ensuring that products and services meet or exceed expectations and requirements. The industry codes are no exception, though the extent to which party compliance is assured varies. For instance, while the BSC Performance Assurance Board has been relatively successful in ensuring that electricity settlement risks are managed effectively, the UNC Performance Assurance Committee (PAC) has suffered from a lack of data on which to make risk assessments and formulate policies to address them.

4.44. We consider that a performance assurance framework will be an integral part of the REC. We aim to instil an ethos of seeking to achieve incremental and continuing performance improvement, which may involve changes to organisational structure, management, leadership and processes rather than simply the application of liabilities or other sanctions upon parties that fail to meet the prevailing standards.

4.45. Therefore, whilst we propose to establish a Performance Assurance Board (PAB) that will monitor party compliance with the mandatory provisions of the REC, techniques will also be applied to assure the effectiveness of other parts of the REC framework, including the RECCo Board, the REC Manager and the PAB itself.

4.46. Performance assurance of the REC Manager will be relatively straightforward as it will be directly accountable to the RECCo Board through contract, which may appropriately include incentives for meeting certain KPIs, etc. It should be noted that we do not envisage the REC Manager being exposed to material financial liabilities that exceed the value of the contract ensuring that bids can be secured from organisations that operate under a not-for-profit model and would be unable to take on such liabilities.

4.47. The PAB will oversee the development and thereafter be responsible for the maintenance of a risk register focused on retail activities including, but not limited to those which are currently identified as contributing to failures in consumer switching. The PAB will also be responsible for maintaining the associated performance assurance methodology. This methodology will set out the process used for rating the risks, the proposed governance of the performance assurance framework, and the techniques that will be used to monitor performance and incentivise compliance on an on-going basis. These may include liability payments or in extreme cases, sanctions such as prohibitions on being able to take on additional customers until issues have been resolved. We would expect the REC Manager to collaborate with industry stakeholders on the initial development of a risk register and methodology in order that the PAB can hit the ground running.

4.48. As noted above, and as part of its responsibility to maintain a performance assurance methodology, we expect PAB to provide guidance to the REC Manager on the scope of any entry assessment and re-qualification requirements. In fulfilling this role, the PAB would be seeking to manage the risk for consumers and market participants of new entrant suppliers and existing parties not being capable of meeting their obligations under the REC.

4.49. Where necessary and appropriate, we will also consider progressing the development of reporting requirements through existing governance mechanisms in that the necessary data is immediately available to the PAB. We are also aware of and support initiatives to develop targeted performance assurance under the current codes. We would anticipate measures put in place to tackle issues such as Erroneous Switches transferring to, and being continued under, the REC once v2.0 takes effect.

4.50. Taking lessons from the establishment of the UNC PAC, we will ensure that the REC PAB is suitably empowered to commission whatever reporting and analysis it reasonably requires. The providers of that data will themselves be subject to performance assurance measures to ensure that the data is provided in a timely manner. We also recognise that it is of limited value to identify problems if there is no means of being to address them. As mentioned above, we envisage the PAB being provided with a number of tools that can be used at its discretion. These would start with seeking to ensure that the party is aware of their obligations and providing advice and support to wherever appropriate. Parties may be required to put in place remedial plans where systemic non-compliance is identified, with the credible threat of

escalation where such plans are not adhered to. Those escalations could involve the triggering of liabilities as mentioned above, or potentially the withholding of certain rights under the REC.

4.51. Where matters of systemic non-compliance can be traced back to the ambiguity or inadequacy of prevailing rules, the PAB would be empowered to develop suitable modifications to address those flaws, and to direct the REC Manager to raise and progress them through the REC modification process. This will avoid one of the current fetters of PAC effectiveness, insofar as any initiative requires the sponsorship of a Party to raise them. Such support may not be forthcoming unless there is a benefit to that individual organisation as opposed to the market as a whole.

4.52. Whilst we would not envisage the PAB being able to modify its own terms of reference or procedures as prescribed in the REC, its own performance should not escape scrutiny. We would therefore expect the PAB to periodically report to, and its effectiveness be assessed by, the RECCo Board. As the RECCo Board would remain accountable for the effective operation of the REC as a whole in delivery its objectives, should any issues with the PAB come to light, the RECCo Board would be expected to take appropriate action, and will have the discretion to do so. This could include actions such as changing the PAB's ToR, procuring additional support, or if necessary replacing one or more of the PAB members. Where such actions are not already provided for in the REC, the RECCo Board would be able to instruct the REC Manager to raise an appropriate modification, which would proceed through REC governance as normal. We would expect such proposals to be considered a material change to the governance arrangements and as such come to the Authority for approval.

4.53. The approach outlined above is set out in further detail in a REC working paper, which has been circulated amongst interested parties; this will be further developed and consulted upon in the coming months, with a view to there being a fully worked up REC v2.0 Schedule on performance assurance by the end of March 2019. We would welcome stakeholder engagement with this paper as it develops.

Question 4.5: Do you, in principle, support the approach to performance assurance outlined above?

5. REC v2.0: Enduring switching arrangements

Chapter summary

REC v2.0 will include the requirements for the enduring operation of the new switching arrangements. We want this to be a best-in-class code and in this chapter we describe how digitisation can help meet this aim. This chapter also requests views on several draft REC v2.0 Schedules and on policy questions that will help us develop and baseline a full draft of REC v2.0 for March 2019. Once it has been baselined, we will then update the content through Switching Programme governance. We expect to introduce REC v2.0 as part of the SCR in 2021.

Questions

Question 5.1: Would you support the development of a REC digitalisation strategy?

Question 5.2: Do you agree that the draft Registration Services Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.3: Do you agree that the draft Address Management Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.4: Do you agree that the draft Data Management Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.5: Do you agree that the draft Interpretations Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.6: Do you agree that the draft Entry Assessment and Qualification Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.7: Do you agree with our proposals that:

- **PAB, as part of its role in mitigating risk to consumers and the market, should provide information to the REC Manager on the specific risks that it wants to be mitigated and assured against through Entry Assessment and Re-Qualification;**
- **The Code Manager should have clear obligations to support the Applicant and coordinate with other code managers; and**
- **Suppliers that undertake a material change to their systems, processes or people should undertake Re-Qualification?**

Question 5.8: Do you think that PAB and the REC Manager should work with service providers to identify and mitigate risks associated with material changes to their systems, processes or people?

Question 5.9: Do you agree that the draft Service Management Schedule meets the required standards set out in the Regulatory Design Principles including whether we have set out clear and workable roles and responsibilities for Market Participants, service providers and the Switching Operator that will support the effective operation of the new switching arrangements? If not, please describe how you think it should be improved?

Question 5.10: We also welcome views on the draft service levels set out in Appendix B of the draft Service Management Schedule.

Question 5.11: Do you agree that the draft Switch Meter Reading Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.12: We welcome views on whether we should retain or amend the remit of the proposed Switch Meter Reading Exception Schedule beyond domestic consumers and electricity NHH consumers.

Question 5.13: Do you agree that we should move any requirements to obtain and process meter reads for settlement purposes into the BSC and UNC?

Question 5.14: We welcome views on whether the Switching Meter Reading Exception Schedule should make specific provisions for consumers with smart gas meters.

Question 5.15: Do you agree that the draft Debt Assignment Protocol Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.16: Do you agree that the REC should refer to existing security standards rather than develop separate and bespoke ones?

Question 5.17: Do you agree that a consolidated PPM Schedule should be developed and given effect as part of REC v2.0?

Digitisation and Digitalisation

5.1.   In June, we set out our vision to make the REC a modern, best-in-class code. We want to make sure that the code is drafted in plain English with good signposting, which we think can be enhanced through digitisation. This will make it easier to read, understand and comply with.

5.2.   Regulators across sectors are exploring the use of regulatory technology, to benefit both consumers and market participants. For instance, the Financial Conduct Authority has developed a number of work programmes to explore the benefits and applications of regulatory technology[5]; the Food Standards Agency has worked with developers to explore how technology can increase the efficiency of regulation[6]; and at Ofgem we are using technology to make our data requests from industry less time consuming.

5.3.   One of the first issues that arises is what we mean by **digitalisation**, and indeed whether it should instead be **digitisation**. These terms are often used interchangeably, but for the purposes of this document and in the context of developing the REC we use both, with each having a distinct meaning and implications for our next steps.

5.4.   As we draft the REC, we will seek to incorporate learnings from past and ongoing work across other sectors. Plain English drafting and good sign-postings are going to support **digitisation**, ie the process of converting information from a physical formal into a digital one. We aspire to the REC being fully web-enabled by the time v2.0 comes into effect.

5.5.   We will also consider whether there are further steps we can take now to make the best use of available tools to facilitate future, **digitalisation**. This would go beyond the removal of paper; it is the process of leveraging digital data in order to improve business processes. This could, for instance, enable each licensed Party to interact with a version of the REC that is tailored to their specific business model, based on criteria such as the services they offer or market segments they serve. Similarly, Parties would be able to conduct a "deep dive" of a particular obligation or topic, with traceability tools readily enabling them not only to see a given REC obligation but, for instance:

- follow this through to the relevant technical documents and systems architecture, showing which data flows enable them to discharge that obligation; or

- understand which legislative or regulatory requirement that REC obligation stems from and operates pursuant to.

5.6.   We consider that such traceability will be of particular importance for future change management, expediting and reducing the costs of impact assessments, and mitigating the risks of proposed changes having unforeseen consequences.

5.7.   Such digitalisation could also lead to improvements in the availability of management information and particularly, increase the speed while reducing the administrative burden of fulfilling reporting requirements and demonstrating compliance. This will be particularly important as we expect the performance assurance framework in the REC, and any liabilities or other sanctions that may result from it, to be much more dynamic than in current codes, and largely self-governing.

5.8.   We suggested in our June consultation that we would place responsibility for the **digitisation** of the code on the REC Manager when it is appointed. Doing so will have

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[5] See the FCA website for more information.
[6] See Regulating Our Future at the FSA website for more information.

implications for the procurement, objectives and contract with the REC Manager. We are also proposing that the REC board should oversee the development of a REC digitalisation strategy.

Question 5.1: Would you support the development of a REC digitalisation strategy?

REC v2.0 contents

5.9.   REC v2.0 Schedules will set out code provisions that will support the enduring switching process. These changes will be given effect through the SCR process. We expect these changes to be implemented at go-live, in 2021.

5.10.   Where possible, we aim to have developed and baselined a full draft of REC v2.0 by March 2019. We recognise that the physical design will not be available at that point as it will be determined by the outcome of the current procurement exercise for the registration and address services. The design of the new switching arrangements may also develop to resolve issues identified as we move through the DBT phase of the programme. We will therefore continue to refine and re-baseline REC v2.0 as new technical documents are developed and where changes to the Switching Programme design baseline are agreed through programme governance.

5.11.   In this chapter, we present several REC v2.0 Schedules for consultation. These have been baselined through Switching Programme governance. Any amendments will be progressed through formal change requests and approval sought from the Switching Programme Design Authority. In doing this, we seek to maintain rigour in the development of the REC, ensuring that any changes are consistent both with the aims of the programme and our Regulatory Design Principles.

5.12.   The Regulatory Design Principles that we are using to develop the REC are set out below. We welcome views on whether the draft Schedules described in this chapter are consistent with these principles.

- Principle 1: The REC must deliver consumer focused outcomes;

- Principle 2: The REC requirements must be consistent with the Design Baseline 4 (as modified under Switching Programme governance);

- Principle 3: The REC contents provide a comprehensive set of requirements that will support the effective operation of the retail market; and

- Principle 4: The REC is written in clear and accessible language that meets the needs of users.

5.13.   In June we requested views on the content of REC v2.0. Our detailed responses are set out in Appendix 1. In summary, the key changes and clarifications that we have made to the content of REC v2.0 are highlighted below:

- We continue to see value in including an Enquiry Services Schedule in REC v2.0. We think that this should cover access arrangements for ECOES and at least the switching related elements of DES. We think that this is the best way to ensure that those parties that have an interest in using these systems have a framework to shape their access rights. Further work is required to identify how access to data items that are not owned by parties to the REC should be governed, for example,

gas settlement data items. We propose to develop our thinking further and share it with market participants in the coming months.

- We are no longer proposing to develop a single Exceptions Schedule in REC v2.0. We will develop standalone REC Schedules covering each of the exception areas. We have today published two examples (Switch Meter Reading Exceptions and Debt Assignment Protocol) which are discussed later in this chapter. We still see value in bringing together aspects of the REC which seek to resolve issues for consumers, for example, when they have been erroneously switched, are unhappy with their switch meter read, have a crossed meter or want to switch with an assigned debt. We propose to develop this as part of REC v3.0 and further detail on the options we are considering are set out in chapter 6.

- We have reviewed responses received on what exception process should be included in REC v2.0 or left for REC v3.0. We now expect to include smart meter prepayment switch exceptions within a Prepayment Schedule in REC v2.0. We also propose to include the Debt Assignment Protocol in REC v2.0.

- We are continuing to review the structure, content and drafting ownership on the REC Technical Documents and Subsidiary Documents. We will refine our proposals over the coming months and request views from stakeholders through Switching Programme governance.

5.14. We are conducting a further review of the MRA and SPAA and once this has been complete we will provide more detail on the proposed content of each version of the REC as well as how existing MRA and SPAA provisions will be treated, for example which will migrate into the REC or other industry codes.

REC v2.0 Schedules for consultation

5.15. In this chapter we describe the changes that we have made to the four operational schedules that we consulted upon in June (Registration Services, Address Management, Data Management and Interpretations). We are publishing revised versions of each of these schedules and the REC v2.0 main body, alongside this document.

5.16. We are also publishing four further REC Schedules for consultation (Service Management, Entry Assessment and Re-Qualification, Switch Meter Reading Exceptions and Debt Assignment).

5.17. At the end of this chapter we describe the progress we have made to develop further REC v2.0 Schedules, ask for views on policy questions that will help us to develop this content and explain how we will engage with stakeholders.

Registration Services

5.18. The Registration Services Schedule (see Appendix 5) outlines the key switching activities undertaken by the CSS and the interactions between the CSS, other central services and market participants. Process areas include (but are not limited to): initial registration within the CSS, the submission of switching requests, the validation of these requests, objections, withdrawals, annulments and gas transporter initiated registrations.

5.19. This Schedule also includes other Registration Events such as change of Shipper and change of Domestic/Non-Domestic indicator. For completeness, the process for

updating the CSS with other registration data such as the identity of the Meter Equipment Manager, Data Collector, Data Aggregator and Meter Asset Provider are also included.

5.20. The detailed arrangements that will support the processes described will be set out in a Technical Schedule that will be drafted by the CSS Provider.

5.21. The main changes that we have made from the June consultation are either to correct errors or to improve clarity. In some instances, we have removed drafting where we had set out processes that are not yet defined in DB4 (eg around Transporter Initiated Registrations) which are now subject to Change Requests.

5.22. Several further areas are also being clarified through Change Requests. For example, clarifying arrangements for the submission of requests for deregistration and changes to the shipper and domestic premises indicator requests. Once any design Change Requests are approved, we will update REC Schedule drafting.

Question 5.2: Do you agree that the draft Registration Services Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Address Management

5.23. The Address Management Schedule (see Appendix 5) sets out the arrangements for the maintenance of the REL Address. The CSS will be required to establish and maintain the REL Address for each RMP. The aim of the REL Address is for it to be an address that is easily identifiable for consumers, suppliers and TPIs (via access to this data on enquiry services) to help them select the correct address for switching. Where there are multiple meter points at a premises, the CSS will link these to the same REL Address.

5.24. In the June consultation we requested views on three address management areas. Respondent views are set out in in Appendix 1 together with our decisions. In summary:

- We think that the CSS should have a data quality objective and performance standards around the quality of REL Addresses. We expect that the performance standards at go-live will be aligned to those that have been contracted for through procurement. We want an appropriate REC governance body – most likely the PAB with support and advice from the REC Manager - to have a role in reviewing and resetting performance standards so that they remain challenging and proportionate, taking into account the wider impacts on consumers. This role for a REC governance body was not included in the June 2018 version of the Address Management Schedule and new drafting has been added.

- We think that DCC should consult on the methodology that it proposes to follow to meet its required Address Data Quality Objective and agreed standards. We do not agree that this methodology should be approved by the REC Panel. DCC should have flexibility to meet its obligations and will be required to report to the REC Panel on its performance. This position is consistent with the drafting published in June 2018 and no drafting change is therefore required.

- We think that the CSS should provide market participants with access to the REL Address Data Quality Indicator. This should assist parties in determining how to use addresses in practice for example if further clarification is needed before switching a consumer. This is not a feature of the current design and a Change Request has been raised. If this Change Request is agreed, we will then update the drafting in the Address Management Schedule.

5.25. We have also made some minor changes to the Address Management Schedule for clarification or correction (eg pulling through changes to defined terms).

Question 5.3: Do you agree that the draft Address Management Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Data Management

5.26. The Data Management Schedule (see Appendix 5) describes the processes, interfaces and timetables related to the update of Switching Domain Data by Data Masters, ie those parties that are responsible for a data element, and their role in making this available to the CSS. It also describes the structure and categorisation of CSS Messages and Receipt Responses.

5.27. The detailed data model, interfaces and further such items will be drafted in a Technical Document by the procured CSS Provider.

5.28. In June, we asked for views on whether the REC Code Manager should have a role in collating and providing Switching Domain Data to market participants. A summary of responses received and reasons for our decision is set out in Appendix 1. Our current view is that, we expect Data Masters to continue to provide Switching Domain Data to market participants and this should not be the role of the REC Code Manager. We do see a potential role for the REC Manager in providing guidance to the market on how Switching Domain Data should be accessed to help ensure that information being used is up to date. We do not think that this requires an explicit obligation in the REC and it should be delivered by the REC Code Manager if there is demand for it.

5.29. We have made a number of changes to the drafting of the Schedule to make the roles and requirements clearer. We have also sought to correct errors in our description of requirements set out in the current design baseline and to pull through any changes to the naming of defined terms.

5.30. We note that work is progressing to move the management of gas market participant data so that, rather than there being joint responsibilities for this under SPAA and UNC, it will all be managed under the UNC. We have therefore drafted the Data Management Schedule on the basis that the Gas Retail Data Agent (Xoserve), will be the data master of this element of SSD and will be responsible for providing it to the CSS.

Question 5.4: Do you agree that the draft Data Management Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Interpretation

5.31. The Interpretation Schedule (see Appendix 5) lists out the definitions that are used in the REC and provides information on how these terms and other content should be interpreted.

5.32. The main changes that we have made from the June consultation are to amend the names and descriptions of some of the defined terms to improve clarity. In particular, we have refined the term CSS so that it links to the Registration and Address Service functions that are only being procured by DCC. We have also included a separate term of Switching Operator. This cover DCC's role in having overall accountability for the live operation of the CSS as well as overseeing the Service Management function. The Service Management function is to ensure co-operation and co-ordination between multiple market participants, Switching Data Service Providers and Switching Communication Service Providers to ensure effective delivery of the switching arrangements.

5.33. We have also identified some errors. For example, we have amended the responsibility for the provision of ECOES from solely DNOs to also include electricity suppliers. This reflects the current obligations in the MRA.

5.34. The draft that has been published alongside this consultation contains terms that are used both for REC v1.0 and v2.0. In the Schedule we have been clear which terms are expected to be designated for REC v1.0 and which will be introduced for REC v2.0.

> **Question 5.5: Do you agree that the draft Interpretations Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?**

Entry Assessment and Re-Qualification

5.35. The purpose of the Schedule (see Appendix 5) is to mitigate the risk to consumers and the market of a REC party not being capable of operating in accordance with its REC requirements.

5.36. We propose that Suppliers must be "Qualified" before being able to send and receive information from the CSS. We propose that existing suppliers will be deemed to be Qualified as part of the entry testing arrangements needed for go-live.

5.37. As set out in the June Consultation, we expect that new entrant suppliers will need to go through Entry Assessment. We noted that Network Operators were not expected to need to do this for REC v1.0 or v2.0, but they may need to do this in the future eg if the scope of the REC changes. To future proof these arrangements we propose to allow PAB to determine, based on an assessment of risk, if and when additional Market Roles should need to go through Entry Assessment.

5.38. To further mitigate risk, we propose that a supplier would need to go through Re-Qualification where it:

- wants to change the parameters within which they have previously be Qualified (Controlled Market Entry); or

- is planning a material change, for example if it wants to introduce a major systems upgrade.

5.39. We would expect PAB, with support from the REC Manager, to adopt a similar approach for service providers. While there may not be formal requirements to be Qualified or Re-Qualified, we would expect PAB to agree and monitor testing plans with support from the REC Manager and to coordinate any testing requirements with other users eg suppliers. This would be consistent with PAB's role to help mitigate risks to the effective operation of the market.

5.40. Testing for Qualification will be a new requirement for gas suppliers. We do not want this to act as a barrier to new market entry and we are therefore proposing that these new requirements are proportionate and risk based.

5.41. The Entry Assessment and Re-Qualification processes are managed by the REC Code Manager who will support the applicant and work with other code administrators as appropriate to coordinate an applicant's market entry.

5.42. The Entry Assessment process is tailored to the Applicant and may differ from Party to Party. The scope of any testing arrangements, and requirements for the CSS, will be determined in the light of experience during DBT and will be informed by active management of risk by the PAB.

5.43. Suppliers that wish to accede to the REC in both gas and electricity will be required to accede in each separate category. However, common systems and processes used across the Applicants portfolio may, with the agreement of the Applicant and the Code Manager, be assessed as a whole.

Question 5.6: Do you agree that the draft Entry Assessment and Qualification Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.7: Do you agree with our proposals that:

a) **PAB, as part of its role in mitigating risk to consumers and the market, should provide information to the REC Manager on the specific risks that it wants to be mitigated and assured against through Entry Assessment and Re-Qualification;**
b) **The Code Manager should have clear obligations to support the Applicant and coordinate with other code managers; and**
c) **Suppliers that undertake a material change to their systems, processes or people should undertake Re-Qualification?**

Question 5.8: Do you think that PAB and the REC Manager should work with service providers to identify and mitigate risks associated with material changes to their systems, processes or people?

Service Management

5.44. The end-to-end Switching Arrangements include services and systems sourced from a number of service providers. A service management function is therefore required to ensure co-operation and co-ordination between multiple market participants and service providers.

5.45. The service management function is overseen by DCC, acting as Switching Operator, with overall accountability for the live operation of the CSS.

5.46. The service providers covered directly by this Schedule include Switching Data Service Providers such as the CSS Provider, Gas Retail Data Agent, Electricity Data Agent, Smart DCC and the Market Intelligence Agents and Switching Network Providers who are responsible for delivering the Switching Network.

5.47. The provisions included in this Schedule (see Appendix 5) are divided into two parts, end-to-end processes which impact Market Participants and roles and responsibilities of the Switching Operator and service providers.

5.48. The key provisions relate to:

- The process by which Market Participants can log Service Requests and Incidents with the Service Desk and how these are dealt with by the Switching Operator;

- The method by which organisations apply to become users of the Switching Portal, noting that the detail will be contained within lower level access documentation which will include an Access Matrix setting out the access to different types of information;

- The process by which organisations will gain access to the Switching Network(s);

- The process by which changes to the Switching Data Services and Switching Network(s) will be made;

- The process by which demand, capacity and availability of the systems will be managed;

- The reporting to be provided by the Switching Operator and the performance measures against which the overall service will be measured. Note that draft KPIs and Service Levels have been included for visibility with the expectation that these may change as procurement activities progress; and

- The roles and responsibilities of the Switching Operator, Switching Data Service Providers and Switching Network Service Providers.

5.49. There are three key elements that the Schedule is seeking to address:

a) There must be clear obligations and associated performance measures placed on DCC, as Switching Operator, to allow its performance to be monitored by the responsible body under the REC and to allow appropriate actions to be taken where requirements have not been met;

b) Switching Data Service Providers and Switching Network Service Providers have a role in delivering the end-to-end switching arrangements; however, existing service providers have no contractual relationship with DCC. Therefore, the Schedule is required to place clear obligations on these existing service providers to ensure they co-operate effectively with the Switching Operator; and

c) The Schedule sets out the processes that Market Participants should follow when interacting with the Switching Operator, for example, logging Incidents with the Service Desk and gaining access to the Switching Network(s) in order to exchange messages with the CSS Provider.

5.50. The Schedule places specific obligations on Switching Data Service Providers and Switching Network Service Providers; however, additional work is required to define the detailed interactions with the Switching Operator and Service Levels for provision of reporting data and information to support the service management function. It is proposed that workshops will be held between the DCC and existing service providers between November and March 2019 to clearly define these requirements (although it is noted that procurement of the Switching Portal and Switching Management Service may have an impact on when the Schedule can be finalised).

5.51. In addition, further work is required to define the detailed change management process for service management,[7] developing a co-ordinated approach which takes into account the end-to-end Switching Arrangements, and also enables each service provider to manage its own service and mitigate any risks that may arise.

5.52. A placeholder has been included to detail the arrangements for gaining access to the Switching Network(s). We will complete this section of the Schedule when we have a better understanding of the requirements. We expect to be able to do this prior to the start of the DBT Phase.

Question 5.9: Do you agree that the draft Service Management Schedule meets the required standards set out in the Regulatory Design Principles including whether we have set out clear and workable roles and responsibilities for Market Participants, service providers and the Switching Operator that will support the effective operation of the new switching arrangements? If not, please describe how you think it should be improved?

Question 5.10: We also welcome views on the draft service levels set out in Appendix B of the draft Service Management Schedule.

Switch Meter Reading Exceptions

5.53. The SPAA and MRA contain processes for agreeing switch meter readings between Energy Suppliers.[8] These cover scenarios where:

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[7] This covers changes to the systems and processes operated by the service providers (e.g. planned downtime and software updates) which can be progressed without a change to the REC and which do not directly affect how market participants interact with the central services.
[8] SPAA Schedule 11 - Procedure for Agreement of Change of Supplier Reading and Resolution of

- the consumer, losing supplier or gaining supplier disputes the meter read used to close the consumer's account with the losing supplier and open it with the gaining supplier; or

- a switch meter reading is not provided to either the losing or the gaining supplier through the standard industry processes.

5.54. For REC v2.0 we propose to introduce a dual fuel Switch Meter Reading Exceptions Schedule (see Appendix 5) that: harmonises gas and electricity provisions where possible, removes unnecessary duplication, corrects any inconsistencies within the current procedures and clearly sets out the consumer principles and outcomes required to resolve the issue.

5.55. To ensure the structure and requirements are clear, we have presented the supplier interoperability requirements as a table. This table sets out what, when and how suppliers must agree a switch meter reading between themselves. In doing this we have sought to significantly simplify the current description. Our aim has been to achieve this without losing meaning or disrupting the intention of the current processes.[9] Further detail on the data flows and guidance on how to populate them will be included in a Technical Document.[10]

5.56. The SPAA Schedule is currently elective for non-domestic gas consumers. The elective status is not proposed to be used in the REC so one effect of moving these provisions to the REC will be that this Schedule cannot be enforced for gas non-domestic consumers who have elected to use it. We also note that increased adoption of Half Hourly (HH) settlement on the electricity market will reduce the application of this Schedule (where in the non-domestic market it only apples to Non Half Hourly (NHH) metering points). Parties to the I&C Code of Practice have agreed to adopt similar provisions to those set out within the current MRA and SPAA Schedules although we note that this is a voluntary code.

5.57. Once a meter read has been agreed between the gaining and losing supplier, the MRA and SPAA include requirements for sending the switch meter reading into gas and electricity settlement. Our initial view is that the role of the REC should end at the point that the meter read has been agreed and has been sent to the relevant metering agent in electricity or shipper in gas. Any further requirements around the processing of meter reads for settlement purposes should be moved to the Balancing and Settlement Code (BSC) and Uniform Network Code (UNC), if these are not already covered. At the end of the draft Schedule we have highlighted which sections we think should move to the BSC and UNC. We welcome views on this approach. If this principle is agreed, we expect to move other meter reading requirements into the UNC and the SPAA. This would include the switch meter reading requirements under MRA Clause 29

Disputed Change of Supplier Readings. MRA MAP 08 - The Procedure for Agreement of Change of Supplier Readings and Resolution of Disputed Change of Supplier Readings.

[9] For example, the electricity disputed reads and agreed reads processes are currently set out separately. However, they contain the same high level steps. These have been amalgamated into a single process within the draft REC Schedule.

[10] We will develop this Technical Document over the coming months and review it with stakeholders through Switching Programme governance. In doing so we will be mindful of any developments towards an industry-wide data catalogue (see chapter 6 for further details).

– Change of Supplier Meter Reading, and SPAA Schedule 21 - Supplier Submission of an Early Reading or Old Supplier Estimate.

5.58. The MRA contains specific provisions related to resolving switch meter reading issues for smart meters. Such arrangements have not been included in the SPAA Schedules, where smart arrangements are not mentioned. In the MRA, MRA Agreed Procedure (MAP) Change Proposal (CP) 0266 was raised in 2015 to incorporate smart arrangements. Subsequently, SPAA CP 16/351 was raised but rejected on the basis that the solution being proposed would have a short shelf life and in anticipation of this issue being considered by the Switching Programme. Therefore, references to smart arrangements have remained as separate within the draft Schedule. To date we have not proposed any changes that would require different arrangements for gas smart meters as we welcome views on whether this is required in the Switching Meter Reading Schedule.

Question 5.11: Do you agree that the draft Switch Meter Reading Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Question 5.12: We welcome views on whether we should retain or amend the remit of the proposed Switch Meter Reading Exception Schedule beyond domestic consumers and electricity NHH consumers.

Question 5.13: Do you agree that we should move any requirements to obtain and process meter reads for settlement purposes into the BSC and UNC?

Question 5.14: We welcome views on whether the Switching Meter Reading Exception Schedule should make specific provisions for consumers with smart gas meters.

Debt Assignment Protocol

5.59. SLC 14 of the Gas Supply licence and the Electricity Supply licence prohibits a supplier from objecting to a switch on grounds of a debt of less than £500 where a domestic customer has a prepayment meter and has agreed to have this debt assigned to the gaining supplier.

5.60. The Debt Assignment Protocol which described the process is currently defined within SPAA Schedule 9 and MRA MAP 13.

5.61. In 2018, a working group reviewed the provisions in the SPAA and MRA documents and agreed a dual fuel process. Change Proposals have been approved under both codes for implementation in June 2019. A further change to the drafting has been proposed via SPAA CP 448 and MRA CP 305. The REC Schedule (see Appendix 5) has been developed using the proposed text from these latest Change Proposals. We will make further amendments if these proposals are not agreed.

5.62. The main changes that have been made as part of the migration into a REC Schedule are as follows:

- removal of superfluous / redundant information – eg background information on the original development of the SPAA and MRA documents;

- removal of data flow information as this will be included within the data catalogue which is expected to form part of the Technical Specification;

- updates to terminology to reflect REC defined terms and the new switching process;

- transfer of the procedure text into a table format to reflect the structure of other REC Operational Schedules; and

- a placeholder has been included for a process map which will be developed at a later date once the process and terminology are accepted.

Question 5.15: Do you agree that the draft Debt Assignment Protocol Schedule meets the required standards set out in the Regulatory Design Principles? If not, please describe how you think it should be improved?

Further development of REC v2.0 content

5.63. The remainder of this chapter sets out our policy proposals in the areas of security, prepayment metering and agent appointments. In these instances, we have not yet drafted REC Schedules for consultation. However, we want to set out our policy thinking and request views that can help inform the development of these schedules.

Security

5.64. We are currently considering the best way to ensure that parties meet the security requirements for interacting with the CSS. We consider it appropriate that the requirements suitably differentiate between the protections required of the Data Services Provider (DSP), which is deemed to be Critical National Infrastructure and with which the CSS interfaces, and the rest of the switching ecosystem which is not.

5.65. Most, if not all, future REC parties are already subject to security requirements based on transferable standards and regular audits under the regimes of other codes, in particular the Smart Energy Code (SEC). A question we are therefore considering is whether the REC should create standalone security requirements and governance, or whether the REC should cross-reference existing code-provisions, eg SEC Annexes E and G. Under both scenarios we would want to ensure that we do not duplicate or create multi-tiered security regimes that create burdensome processes for parties unnecessarily.

5.66. If the implementation of REC requirements is to rely on reference to other codes, we will have to ensure that the scope and governance cover the right parties and apply to all parts of the end-to-end switching arrangements.

Question 5.16: Do you have views on the management of security requirements in the REC? Please give reasons.

Prepayment metering

5.67. There are currently six SPAA Schedules relating to prepayment activities, though five of these are subject to a current change proposal, SPAA CP446, which would consolidate them into a single Schedule. The sixth relates to debt assignment and is

covered in our discussion on the Debt Assignment Protocol. The five SPAA Schedules and the MAP equivalents are set out in the table below:

SPAA Governance	MRA Governance
Schedule 25: Management of Prepayment Activities Schedule 27: Prepayment Meter Misdirected Payments Process Schedule 28: Prepayment Meter File Formats	MAP 14 - Procedure for the Allocation of PPM Payments Transacted Against an Incorrect Device
Schedule 38: Smart Prepayment CoS Exceptions Process	MAP 24 - Smart Prepayment CoS Exceptions Process
Schedule 41: Prepayment Assurance Measures	N/A

5.68. In consolidating the provisions relating to the five Schedules, the SPAA working group first undertook an initial impact assessment. They then sought to streamline the documentation (removing duplication in introductions and content pages); address any typographical errors and ensure a consistent application of definitions. In doing so they had regard to the likelihood of this drafting shortly transitioning to the REC and sought to facilitate this further transition where possible, including having all prepayment related requirements in one place. CP446 was accepted by the SPAA Change Board and subject to no appeals being raised, is expected to be implemented as part of the Scheduled release of SPAA in November 2018. The sixth Schedule, relating to the Debt Assignment Protocol (DAP) has recently been reviewed by a joint MRA and SPAA Working Group to ensure consistency across the gas and electricity provisions. These provisions are expected to migrate into the REC as a single dual fuel Schedule as part of v2.0.

5.69. In terms of smart provisions, the current procedures detail the smart Change of Supplier exceptions process which links to the end-to-end switching process. Therefore, management and obligations for these activities should be transitioned into the REC and the transition of these arrangements would be a consequential change as part of the switching programme. This will provide a single point of reference for current legacy prepayment provisions and also for future smart prepayment developments to ensure that consumers can be managed through the entire end-to-end process, regardless of being legacy or smart.

5.70. Whilst the smart prepayment provisions are already very similar in both gas and electricity and so can be readily transitioned into a dual fuel Schedule, we recognise that there are aspects of the legacy arrangements that will require further development. We also recognise that there may be aspects with cannot suitably be harmonised and/or must remain fuel specific. However, we do not consider that these exceptions will be substantive or would preclude their being governed by a dual fuel Schedule and code.

5.71. Any transition would likely require certain defined terms to be revised and aligned, and there may remain a need to refer to separate technical documents to the extent that gas and electricity data flows remain separate. The extent of enduring separation would become clearer as work on the data catalogues develops.

5.72. Given the direct consumer facing aspect of the PPM Schedules, we consider that to be self-evident that they should sit alongside the other retail arrangements in the REC.

Whilst some of the PPM provisions do not relate explicitly or directly to the change of supplier process, they will likely form part of a consolidated PPM Schedule alongside provisions that do, ie those currently set out in SPAA Schedule 38 and MAP 24. It would be inappropriate not to include important provisions relating to PPM consumer switching within the scope of the REC, while unpicking recently consolidated provisions would appear to be a retrograde step and inconsistent with approach to the REC more generally. We therefore consider that the PPM Schedule(s) would suitably migrate to the REC as part of v2.0 and be progressed as part of the SCR, rather than possibly deferred to v3.0.

Question 5.17: Do you agree that a consolidated PPM Schedule should be developed and given effect as part of REC v2.0?

Agent Appointment

5.73. Currently, the various agents are appointed by gas and electricity suppliers to perform a range of activities relating to individual supply points. When the customer and therefore the supply point associated with that customer's premise switches between suppliers, a new set of agents can be appointed by the incoming supplier and the former ones de-appointed by the outgoing supplier. The existing registration systems (MPAS and UKLink) store details on which agents are responsible for providing services in respect of any given supply point, though not all agent details are currently stored. The requirements also differ greatly between fuels, with gas requiring few of the mandatory appointments required in electricity.

5.74. The establishment of the CSS will facilitate the faster and hopefully more reliable transfer of data between relevant industry parties, including the data necessary to support the appointment of agents. Whilst the agent appointment processes are clearly triggered by a customer switch, confirmation of the switch is not dependent upon them and those processes are not themselves considered to be part of the switching programme E2E design. However, we do consider that these processes must be reviewed to ensure that they remain fit for purpose in a faster switching environment and are appropriately governed. We will review these are part of the further development of REC v2.0 and to the extent there are consequential impacts upon provisions elsewhere, such as the BSC, consider it as part of the SCR.

6. REC v3.0: wider consolidation

Chapter summary

To fulfil our aim of reducing retail governance complexity and the burden upon market participants, we will consolidate and reduce the number of codes, rather than the REC simply adding to their number. To do this, we propose to take the lead on consolidation work and endeavour to complete it, as far as practicable, alongside the Switching Programme. This chapter sets out our thinking on the residual elements of the MRA and SPAA that would not ordinarily be captured by the switching SCR and how we intend to proceed with them.

The resource required to complete this consolidation will remain separate to that of the Switching Programme. Consolidation is a lower priority than the time critical aspects of the Switching Programme and as such, will not be allowed to risk programme delivery.

Questions

Question 6.1: What do you think are the pros and cons of Model A and Model B and which do you think we should use to develop an Exceptions Schedule in the REC?

Question 6.2: Do you agree that the theft of gas and electricity provisions should be moved to the REC?

Question 6.3: Do you agree that the REC Manager should undertake the (re)procurement of any services due to commence at or after REC v2.0 implementation?

Question 6.4: Do you support the establishment of an industry-wide data catalogue that all code bodies incorporate by reference into their own codes and collaborate on the maintenance of?

Question 6.5: Do you think that the REC should have the responsibility of hosting the industry-wide data catalogue?

Question 6.6: Do you think that an industry-wide data catalogue should be developed for REC v2.0 (to enable REC CSS messages to be incorporated from day 1) or should consolidation be undertaken as part of REC v3.0?

Question 6.7: Subject to further development, assessment and consultation, would you in principle support aligning the gas and electricity metering codes of practice under common governance?

Question 6.8: If yes, do you consider that the REC would be a suitable vehicle for such common governance?

> **Question 6.9: Do you consider that the SMICoP should be incorporated into an industry code, and if so, do you agree that this should be the REC?**

Introduction

6.1.   In June we said that the REC should ultimately allow for consolidation of all retail governance provisions. This will have the immediate impact of closing the MRA and SPAA, but will also have consequences for other codes that interface with the retail market. We are developing this work under the title of REC v3.0.

6.2.   In consolidating retail code provisions, we will look to harmonise processes in gas and electricity, and simplify the language and requirements set out in the code. The consolidated provisions should have the same look and feel as the new switching provisions developed as REC v2.0 (albeit these may also be subject to change when they are digitalised).

6.3.   In this chapter we set out areas of existing codes that we believe are obvious candidates for inclusion in the REC or elsewhere, and ask a number of questions about our proposed approach to their inclusion.

Developing consumer focused exceptions processes

6.4.   As noted in the previous chapter, we will develop dual fuel Schedules for each of the currently defined exception areas that are currently defined as being within scope for REC v2.0 (eg erroneous switches, debt assignment and disputed switch meter readings). Our objective for REC v2.0 is to update existing exception processes to reflect the new switching arrangements and to present these processes in a clearer way by removing unnecessary duplication, using clearer structures and, where relevant, dual fuel terminology.

6.5.   For REC v2.0, Schedules dealing with exceptions processes will include the current obligations relating to customer outcomes (for example content and timing of consumer communication of resolution plans), supplier interoperability rules for exchanging data and reaching agreement on how to resolve the exception issues, and escalation procedures. Data flow descriptions and detailed instructions on how to populate data flows will move to an appropriate technical document.

6.6.   Our vision for the full REC is for it to be customer-centric. As such, we want to use this consultation to explore how these arrangements, that have a direct impact on how consumers experience the energy retail market, can be further developed and made more consumer focused.

6.7.   In bringing existing exceptions processes together under a dual fuel code, we think there is merit in establishing a set of common, high-level principles around how

consumers should be treated in the different scenarios. Our initial view is that the high-level principles should be centred on the following themes:

- When a consumer identifies or suspects a problem, it should be clear who they need to contact to initiate problem resolution;

- The party responsible for initiating the problem resolution should provide information to the consumer in a timely manner on the expected outcomes, next steps and timescales for resolution;

- Where the issue requires the cooperation of REC Parties, these parties should use reasonable endeavours to work together, including where necessary agreeing a resolution plan, to resolve the issue and meet the consumer's reasonable requirements;

- When the issue is resolved, the responsible party should provide confirmation to the consumer, in a form that meets the consumer's requirements; and

- Information provided to the consumer should be accurate, informative and provide information on who the consumer should contact if they have any further questions or concerns.

6.8.   We also think that these high-level principles should be supported, where possible by tailored customer requirements and outcomes for each problem area. This would aim to bring greater clarity on the customer outcomes suppliers should achieve through the specific resolution process. Presently, these requirements are often embedded within the description of the resolution processes or referenced in multiple sections of the Schedules. We also think that there may be merits in harmonising certain process aspects, for example around any escalation arrangements between suppliers.

6.9.   Although the introduction of the CSS will enable faster switching, we believe the resolution of issues that impact consumers' experience of switching will also need to improve to ensure the full benefits of the new arrangements can be realised. We want to explore if existing requirements and parties' compliance with these could be made to focus more on the delivery of the right consumer outcomes rather than compliance with specific process steps and timelines. Moving towards a performance-based approach to regulation could also provide an opportunity for more innovation across the retail energy market.

6.10.   To test our thinking in this area we welcome views on options around how prescriptive REC v3.0 should be around any interoperability requirements needed to resolve an issue. We have identified two models that we would welcome stakeholder views on our early thinking as part of this consultation:

- **Model A (Performance-Based Approach)**: High focus on consumer outcomes and low prescription. Under this model, the requirements would specify the minimum and desired performance of parties in the resolution of customer issues. Rather than prescribing specific internal structures and steps for the resolution of issues, the requirements would focus on the specific outcomes parties need to achieve. These outcomes would drive the resolution process. For example, under this model the current escalation procedures in the different exceptions Schedules requires parties to have specific escalation contacts in place and only escalate an issue when certain conditions have been met, would be replaced with a

performance-based requirement. Such a requirement could be that suppliers cannot unduly delay the resolution and must always seek to come to a resolution that takes account of the defined customer requirements or outcomes. Equally, rather than specifying the specific content of a resolution plan, the requirement under this model would focus on suppliers having to agree in a timely manner a resolution plan that is effective and is progressed by an accountable representative from each affected party. The technical details such as flow structures to be used in the process would be contained in a Technical Document. Unlike Model B, the REC would not prescribe specific timescales for their use in resolution and escalation. Instead, the REC Performance Assurance Board would monitor relative supplier performance and use this as a measure to drive improvements from outlying suppliers. This model embraces more of a risk-based approach to regulation than Model B, giving parties more flexibility in selecting a suitable approach and solutions to deliver the desired/ required outcomes under the REC.

- **Model B (Mixture of Prescription and Principles)**: High focus on consumer outcomes and retain the prescription on the supplier interoperability requirements. This model would set out specific minimum standards that customers can expect based on clear rules around what suppliers need to do and when (eg demands for specific structures and process steps). The REC Performance Assurance Board will monitor supplier performance against prescriptive standards, for example against the timescales set for suppliers to provide information to each other and the consumer.

6.11. We recognise that developing this new approach for consumer centric exceptions management will be challenging and will require engagements and input from stakeholders. For this reason, we are looking to align with work with REC v3.0. However, if strong progress is made, we may look to bring this back into REC v2.0. In terms of timing, we will look to have the REC v2.0 Schedules ready for March 2019. We will progress the development of the new REC v.3.0 approach in parallel. We do not think that this twin track development will lead to significant duplication of effort as the harmonisation and streamlining of the interoperability requirements for REC v2.0 may (if Model B is chosen)) be used in the enduring structure.

Question 6.1: What do you think are the pros and cons of Model A and Model B and which do you think we should use to develop an Exceptions Schedule in the REC?

Theft of energy

6.12. Theft of gas and electricity increases the costs paid by customers and can have serious safety consequences. It leads to misallocation of costs among suppliers that can distort competition and hamper the efficient functioning of the market. It can also have links to organised crime, such as through the theft of electricity for cannabis cultivation.

6.13. In recent years we have strengthened obligations on industry parties regarding the prevention, detection and investigation of energy theft. In particular, following the introduction of SLC12A into the gas and electricity supply licences, all suppliers are required to be a party to, comply with and maintain such "theft arrangements" as may be required by the Authority. We subsequently issued a Direction pursuant to SLC12A, requiring gas and electricity suppliers to implement a Theft Risk Assessment Service (TRAS). The aim of the TRAS is to assist suppliers' efforts to detect theft by using data to profile the risk of gas and electricity theft at premises, ie through identifying anomalous consumption levels. Separate but complementary obligations have also been placed on suppliers regarding an energy theft tip-off service. The 'Stay Energy

Safe' service allows for members of the public to report suspected energy theft via 24 hour free phone line or online. This information is passed on to the relevant supplier or network operator to be further investigated. We have also approved the introduction of incentive schemes that seek to reward suppliers who meet or exceed certain targets for the detection of theft, offsetting the costs of pursuing such investigations.

6.14. In the absence of a suitable dual-fuel code, the TRAS provisions were placed in the SPAA and DCUSA (both of which are administered by Electralink), as shown in table 2 below:

Table 2: TRAS provisions

DCUSA Governance	SPAA Governance
Schedule 23 – Theft of Electricity Code of Practice Schedule 25 – TRAS - Theft Risk Assessment Service Schedule 26 – ETTOS – Energy Theft Tip Off Service Schedule 30 – Introduction of the Electricity Theft Detection Incentive Scheme (ETDIS)	Schedule 33 - Theft of Gas Code Practice Schedule 34 - Theft Risk Assessment arrangements Schedule 37 - Energy Theft Tip-Off Service Schedule 39 - Gas Theft Detection Incentive Scheme

6.15. The theft arrangements set out in SPAA and DCUSA are largely duplicates of each other. This duplication therefore necessitates each modification to the theft arrangements to be duplicated across both codes, which is at best inefficient, but also creates risk of unintended inconsistencies between the two fuels, given that each code remains subject to a different executive committee and changes are separately voted upon by different constituencies.

6.16. Given our intention to replace the SPAA in its entirety, it will be appropriate for the gas theft arrangements to migrate to the REC. We consider that it would be appropriate at this time to also migrate the electricity theft arrangements from the DCUSA and fully align them for the first time.

Question 6.2: Do you agree that the theft of gas and electricity provisions should be moved to the REC?

6.17. As each of the theft arrangements outlined above have only been implemented relatively recently, their full potential in terms of impacts on detecting and/or reducing energy theft are not yet known. However, parties are understandably keen to ensure that they are demonstrably effective and delivering value for money, particularly in advance of any of further contracts or re-procurement of the services. We are equally keen to ensure that any incentive scheme that is in place is delivering the expected impact on supplier behaviour and ultimately, better results than were achieved without such a scheme being in place.

6.18. As part of any transition of the theft arrangements to the REC, we will need to take into full account the current contracts between SPAA Ltd and DCUSA Ltd, and the current service providers, and the likely timelines for any re-procurement. Wherever possible and practicable, we will look to ensure that contracts are novated to RECCo so as to ensure that there is no hiatus in service provision, or avoidable expense of terminating contracts prematurely.

6.19. The current contracts for provision of the TRAS and tip-off services will come up for renewal and/or re-procurement before REC v2.0 goes live. Before undertaking such re-procurement, we consider that it would be appropriate to undertake a post-implementation evaluation of the TRAS and associated incentive schemes to determine whether they are delivering the benefits anticipated in our Impact Assessment, and/or identify any areas for improvement. In order to facilitate this, we support Electralink's recommendation to SPAA Ltd and DCUSA Ltd that an independent value for money assessment of the TRAS be undertaken. We will then be in a better position to understand which aspects of the theft arrangements will be migrated across to REC and which, if any, may not.

6.20. It will remain appropriate for any contract renewals periods falling prior to cutover to REC v2.0 to be dealt with by the existing code administrators and code bodies. However, we consider that any contracts for these theft arrangements or other services set out in code(s) that are due to commence at or around the implementation of REC v2.0 would suitably be progressed by the REC Manager, subject to them having been appointed.

Question 6.3: Do you agree that the REC Manager should undertake the (re)procurement of any services due to commence at or after REC v2.0 implementation?

Green Deal

6.21. The Green Deal was established by Government as a scheme to allow energy efficiency improvements to be made to properties, with the cost being financed by third-parties and re-paid via electricity bills. In order to facilitate the collection of money by suppliers, a database was established and is maintained under the MRA. Electricity suppliers, Green Deal providers and, to the extent they are different, finance parties are all party to the Green Deal Arrangements Agreement (GDAA).

6.22. Although the original Green Deal scheme did not achieve the anticipated volumes of installations, and was effectively closed in 2015 when the Government stopped supporting the Green Deal Finance Company, it remains possible to obtain a Green Deal loan financed by private companies. This, together with the lengthy amortisation period of the original loans, suggests that the GDAA may continue in some form for the foreseeable future. Whilst the GDAA is still technically a standalone agreement, the GDAA has close links with the MRA and relevant working groups have for some time been looking to fully incorporate the GDAA into the MRA in order to avoid duplication and reduce the costs of participation and administration.

6.23. As with all other provisions of the MRA and SPAA, if those codes are to be wound down we must fully consider the implications for the GDAA and others aspects of the Green Deal arrangements, irrespective of whether they are, in the meantime, consolidated. We will consult further in due course on the implications for Green Deal arrangements arising from code consolidation.

Retail Data Catalogue

6.24. To ensure gas and electricity data is transferred between market participants in a consistent format, both the electricity and gas markets have data catalogues which specify the attributes of data items to be transferred between parties, and how these data items are arranged within standard data flows which are used to send the data. The catalogues also include information regarding validation rules for each data item to

ensure consistency across market participants. Having a common set of data items, data flows and validation requirements ensures interoperability between parties who do not have contractual relationships eg between an outgoing supplier and incoming supplier.

6.25.   The governance for these data catalogues is spread across multiple industry codes with data flows in the electricity Data Transfer Catalogue (DTC) owned by the MRA and BSC, data flows in the retail gas Data Flow Catalogues (DFCs) owned by the SPAA; data flows in the gas settlement UK Link Manual owned by the UNC and dual fuel smart metering data flows owned by the SEC.

6.26.   Work undertaken during the design phase of the Switching Programme has identified the need for new data flows and data items to transfer information to and from the CSS. In addition, current data items will also need to be sent to and from the CSS. These data flows and data items will need to be clearly defined and the expectation is that these message definitions will be governed by the REC.

6.27.   The transfer of provisions from SPAA and MRA into the REC, and the development of new REC data messages to support interaction with the CSS, present an opportune time to consider further consolidation of the existing gas[11] and electricity data catalogues under the REC. It also creates an opportunity to develop a governance regime which defines a consistent set of standards to be applied across the codes, whilst still ensuring the appropriate parties have responsibility for defining the content and structure of individual data flows.

Question 6.4: Do you support the establishment of an industry-wide data catalogue that all code bodies incorporate by reference into their own codes and collaborate on the maintenance of?

Question 6.5: Do you think that the REC should have the responsibility of hosting the industry-wide data catalogue?

Question 6.6: Do you think that an industry-wide data catalogue should be developed for REC v2.0 (to enable REC CSS messages to be incorporated from day 1) or should consolidation be undertaken as part of REC v3.0?

Meter/Supply Point Administration

6.28.   Electricity distributors are required by their licence to provide and comply with the MRA. The MRA was created in order to allow competition to operate, governing the Meter Point Administration Service (MPAS) that each distributor is required to provide for the supply points on their networks. Suppliers are not able to choose the distribution network to which the customer is connected, and therefore not the MPAS they receive. The MRA therefore ensures that this service is governed robustly,

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[11] In gas, work has already been initiated jointly between Xoserve and ElectraLink to consider a consolidated gas catalogue. This would cover data held within the SPAA DFCs, and the UK Link Manual. This work is seeking to define the joint arrangements, specifically the publication principles and governance for a single gas data catalogue, emulating the electricity arrangements noted above. The intention is for the gas provisions to reflect the existing electricity arrangements to facilitate any future consolidation.

enabling suppliers to acquire customers and compete effectively on all networks. Whilst the CSS will supersede certain aspects of the current MPAS arrangements they will continue to work alongside the CSS and be an important part of the retail market arrangements.

6.29. If we are to wind down MRA in an orderly fashion rather than it continue to be maintained a narrower code than today, we must ensure that electricity distributors are able to discharge their licence obligations in respect of the MPAS arrangements, and that they continue to be governed effectively. Given that electricity distributors will be required to accede to and comply with the REC, this would be (and to date has been assumed to be) a natural destination for any residual MPAS provisions, to the extent that there are any that would not in any case fall within scope of the switching SCR and transition to the REC as part of the new switching arrangements. However, given that both electricity distributors and suppliers are required by their licence to be party to and comply with the Distribution Connection and Use of System Agreement (DCUSA), this could provide another option.

6.30. At this stage, we consider that both options should be fully considered before making any decision. That decision will also need to be informed by a fuller understanding of which MRA provisions will not in any case form part of the REC at v2.0.

Metering Code(s) of Practice

6.31. Any person who installs or maintains meter installations must be competent to do so. Further assurance of meter operators' competency and adherence to gas industry practices is provided through the Meter Asset Manager (MAM) Code of Practice (CoP) (MAMCoP). Gas suppliers and gas transporters are required by their licences to use only MAMs that have been approved, and in practice this involves being audited as being compliant with the MAMCoP. Historically, Ofgem had the role of approving MAMs. However, in March 2012 this approval role and governance of the MAMCoP transferred to the SPAA.

6.32. In addition to the requirements with regards to safety, as mentioned above, the Gas Supplier Licence also placed obligations on suppliers for a meter to be installed, or subsequently inspected, by a person approved by Ofgem. Whereas the MAM has overall responsibility for the whole life cycle of a meter installation, the purpose of the Ofgem approval scheme was to ensure that the meter is installed in a manner which ensures the accurate registration of gas consumption. However, there was a significant degree of overlap between the MAMCoP and the Ofgem approval schemes.

6.33. Following consultation with gas suppliers and interested parties, we therefore modified the gas supply licence[12] and consented to a change to the SPAA[13] enabling the governance of the installation approval scheme to transfer to the SPAA. This has consequently facilitated improvements and efficiencies to the administration of the scheme, not least through removing the costs of duplicative accreditation, etc.

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[12] See: https://www.ofgem.gov.uk/publications-and-updates/transfer-role-approving-meter-installers-decision-modify-gas-supply-licence-and-decision-direct-implementation-spaa-change-proposal-16-349
[13] Change Proposal 16/349: 'Introduction of OAMI into SPAA vires'

6.34. In electricity, the Meter Operation Code of Practice Agreement (MOCOPA) is an agreement between electricity Distributors and Meter Operators. Like the MAMCoP in gas, MOCOPA defines safety, technical and business interface requirements regarding the provision of meter operation services. However, the MOCOPA is not itself referenced in, or a condition of, any licence. The MOCOPA arrangements are overseen by a Review Panel and supported by Gemserv in the role of Registration Authority.

6.35. Whilst there will always be technical elements that differ between the gas and electricity codes of practice, we consider that there is a significant amount of overlap between the two regimes. Given the winding down of the SPAA, if the gas codes of practice transfer to the REC there may be opportunity for further consolidation with the MOCOPA, and consequential administrative efficiencies. We also consider that having both the gas and electricity codes of practice under single governance would further facilitate improvement to performance assurance, particularly in respect of the robust recording and sharing of meter technical details, much of which can only economically be captured at the time the meter is installed or some other site visit is required.

Question 6.7: Subject to further development, assessment and consultation, would you in principle support aligning the gas and electricity metering codes of practice under common governance?

Question 6.8: If yes, do you consider that the REC would be a suitable vehicle for such common governance?

Smart Metering Installation Code of Practice (SMICoP)

6.36. The SMICoP was developed in order to provide additional consumer safeguards and standards applicable during the installation of Smart Metering Systems. Suppliers with a domestic and/or microbusiness portfolio above 50,000 have an obligation to become a member of SMICoP Ltd and adhere to the SMICoP[14]. Smaller suppliers must also self-certify and adhere to the SMICoP; however, becoming a member of SMICoP Ltd and thereby contributing toward the code's funding, is voluntary.

6.37. The SMICoP includes protections around marketing to domestic consumers, including a ban on conducting any sales during the installation visit. It specifies the minimum standards for suppliers to follow to ensure that the customer receives a high standard of service throughout the installation process, and knows how to use, and benefit from, the smart metering equipment to improve the energy efficiency of their home.

6.38. The rollout of smart meters is due to complete by 2020; however, new installations are likely to continue beyond this date. The number of installations are likely to be decreasing around the time REC v3.0 is expected to come into effect. Therefore, it may be appropriate to give consideration to whether the SMICoP should continue to be maintained as a standalone code of practice, or could be incorporated into the REC alongside other consumer facing retail provisions. If the latter, it would also provide the opportunity to review the SMICoP and amend any requirements that may by that time no longer be applicable, and/or could be appropriately delegated to the REC.

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[14] Those obligations are set out in Standard Licence Conditions 35 and/or 36 of the Gas Supply Licence, and Standard Licence Conditions 41 and/or 42 of the Electricity Supply Licence respectively.

Question 6.9: Do you consider that the SMICoP should be incorporated into an industry code, and if so, do you agree that this should be the REC?

7. The DCC

Chapter summary

This chapter sets out the licence modifications that we propose making in order to extend DCC's role in to design, build and test and early years of steady state operation. The main changes are to Licence Condition 15 which sets out DCC's role in relation to switching. There are no material changes to the proposals presented in our June consultation.

We also use this chapter to consult on our proposed direction for the margin and incentive regime for DCC during the DBT phase of the programme. This includes setting DCC's allowable margin on Internal Costs at 12% and no margin on External Costs. This margin will be placed at risk against a series of milestones with gated entry / exit criteria ensuring the required quality is met. We also propose a small and capped discretionary reward (with balanced downside penalty) in relation to DCC going above and beyond established requirements to further improve data quality and therefore improving consumer's experience of switching.

Questions

Question 7.1: Do you agree with the five incentivised milestones identified? Do you think any milestone should be given greater importance and therefore a larger proportion of margin placed at risk?

Question 7.2: Do you agree with our proposals for the shape of the margin loss curves. Do you have any suggestions for other margin loss curves which may better incentivise DCC to achieve its milestones in a timely manner while encouraging quality?

Question 7.3: Do you agree with our proposal for a potential recovery mechanism? Please give reasons. What types of criteria could be considered for demonstrating clear, transparent communication and what portion of lost margin should be available to be recovered?

Question 7.4: Do you agree with our proposals for a discretionary reward where it can be demonstrated that DCC has gone above and beyond established requirements for REL Address matching? Please give reasons.

Background

7.1.   In June 2018 we consulted on our proposals to modify DCC's licence to extend its role into the DBT phase and early years of steady state operations. Taking account of consultation responses, we have now set out the proposed modifications in our Statutory Consultation (Annex 2). These proposed modifications to the Smart Meter Communication Licence allow DCC to enter in to contracts with the selected service providers to oversee the development of the CSS, and to be responsible for the provision of the new switching service in the early years of steady state operations.

7.2.   DCC's role would be in the context of Ofgem remaining, until the end of the Post-Implementation phase, the overall programme sponsor and design authority, with implementation supported by independent coordination, assurance and integration functions. This is set out within chapter seven of our Outline Business Case.[15]

7.3.   In order to put this decision into practice we need to make sure DCC is appropriately funded and has clear obligations for its switching role. The obligations included within the licence modification will be underpinned by a price control framework that will include financial incentives / penalties. We are consulting in this document on our proposed approach to the margin that DCC can reasonably expect to earn, commensurate with the degree of risk and DCC's overall performance. The consultation on margin and incentives does not form part of the statutory consultation and will sit as a direction outside of the DCC licence. This is set out later in this chapter.

Proposed licence modification

7.4.   In June we consulted on the licence modifications required to define DCC's role in providing the Centralised Registration Service (CRS) during DBT and early years of steady state operations.

7.5.   There was strong support from the vast majority of respondents and we are not proposing any material changes to the text set out in our June consultation. A table of the changes is included in Appendix 2 of this document and a tracked version of the licence is included in Appendix 5.

DCC's role

7.6.   There was strong support for DCC's role as set out within our June consultation and as such we do not intend to make any changes to those proposals for DCC's role. This includes extending DCC's role into the DBT phase and early years of steady state operations.

7.7.   DCC is starting to prepare for its potential role during the DBT phase including establishing the resource and capabilities required. This is being done as part of their development of the DBT Business Case which will be developed with input from, and consultation with, Ofgem and programme stakeholders.

Role in relation to core industry documents

7.8.   We intend to modify Licence Condition (LC) 21 to obligate DCC to become a party to the REC. This condition will also include the Duty to Co-operate (as described in Chapter 2), which will be extended to DCC in the same form as for the other licensed parties.

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[15] https://www.ofgem.gov.uk/publications-and-updates/switching-programme-outline-business-case-and-blueprint-phase-decision

Phases of DCC obligation

7.9. We intend to split DCC's role as set out within the licence into two phases and objectives.

- **Interim Centralised Registration Service Objective:** this is the modification of the existing LC 15 obligation to extend it to cover the DBT phase and post-implementation. Ofgem will remain as the programme sponsor during this period.

- **General Centralised Registration Service Objective:** this is the additional objective added to extend DCC's role into steady state operations.

7.10. We are not taking a view here, or specifically stating within the licence itself, as to how long DCC's operational role of the CSS should last. The changes to the licence allow for DCC's role in operations to continue throughout the contract term. However, there is a provision in DCC's licence which allows Ofgem to require DCC to cease activity under the switching obligation (LC 15).

7.11. Decisions on the long-term future of the provision of the CSS are likely to be affected by any changes in the regulation of the retail energy market. We have said that we will keep under review whether the Smart Communications licensee remains the right party to be responsible for operation of the CSS, and that the end of the current licence term (September 2025) provides a likely opportunity for such a review. The additional text added to Part Two of the DCC licence (terms in respect of revocation) and to the Authority's power to direct in LC 15 will allow for DCC's switching obligations to be split out from the DCC licence if or when required. This would include if the current DCC licence term were to be extended beyond September 2025. Consideration of any change would be made well in advance of 2025 to allow for a decision that, if required, would give enough time for a smooth transition ahead of this date.

Defining CRS

7.12. The licence term used within the DCC licence to refer to the Switching Programme is the CRS. This term has a broad meaning and has been used to cover all aspects of the development and implementation of new switching arrangements to deliver faster and more reliable switching. As we have moved to a more precise definition of the specific services required, the term CRS is now only used within the DCC licence. For clarity, the term CRS is the DCC licence term that refers to the full end-to-end programme requirements and services provided by DCC including, but not limited to:

- the CSS, including the registration service and the address service;
- service management;
- communication network services;
- system integration functions; and
- core system assurance functions.

7.13. The CSS represents the new, enduring capabilities upon which the switching service is built and operated. This includes, but is not limited to, a registration service, address service and associated service infrastructure.

7.14. We intend to modify the definition of CRS within the DCC licence to relate specifically to the DCC activities required to deliver the Switching Programme, the CSS, service management and its requirements as a REC party.

Licence Condition 15

7.15. There was strong support from the June consultation that our proposed text for this condition effectively reflected our intentions. Some minor amendments were suggested which we have taken on board including:

- consideration should be given to what is economic and efficient for the end consumer;
- DCC should ensure that it meets its obligations with consideration to the timings set out within the programme plans and the REC;
- additional wording to clarify that DCC should provide, where possible, the switching communications network through utilising existing and / or new industry networks (eg IX and DTN) by entering into standard user agreements:
  o where this is possible, DCC will be exempt from competitive procurement and associated licence conditions in relation to this; and
  o where it is not possible to enter into or maintain these arrangements then DCC should seek to enter into agreement(s) or contract(s) with network provider(s) who meet the requirements. This will be subject to all DCC licence conditions and with due consideration to the most economic and efficient solution for all programme stakeholders.
- clarification that DCC's role in the General CRS Objective includes the timely provision, delivery, management and upkeep of a reliable, efficient, economic and secure CRS that will improve consumers' experience of switching; and
- amended wording in relation to the Authority's power to direct which relates this to revocation of the Licensee's obligation under this condition. This sets out that we can direct DCC to cease and /or transfer all activities under this condition and clarifies when it is appropriate for associated economic and efficient costs of winding up to be claimed. This allows for the DCC licence to be extended in September 2025, if required, separately from the switching obligation.

Consequential licence changes

7.16. A number of consequential changes have been required throughout the licence to take account of the proposed modification to LC 15, DCC's extended role in the programme and the creation of the REC. These are listed with a brief description in Appendix 2. A high-level summary is included below for reference:

- addition of Retail Energy Code and REC to the definitions section;
- clarification of the definition of FRSC;
- updates to references to LC 15 to use the updated title throughout the licence;
- updates throughout the licence reflecting DCC now being a party to both the REC and the SEC;
- flow through of the ability for DCC's activities under switching to be transferred separately from the rest of its Authorised Business throughout the licence; and
- addition of new obligations in LC 21 requiring the DCC to become a party to, and comply with, the REC and making DCC subject to the general Duty to Co-operate.

7.17. Further changes have been made to DCC's price control terms in relation the CRS:

- modification of text for all CRS terms to include consultation with REC Parties;
- expansion of the definition of CRS External Costs to include FRSC, Switching Network and SI. This means that DCC will earn no margin on these services; and
- additional text and terms have been added to allow for the separation of charging methodologies into the REC.

Next steps in relation to licence modifications

7.18. We have included with this document the statutory consultation for the proposed DCC licence modifications. Subject to responses, we plan to publish our decision notice to make the modifications to the DCC licence later this year. The modification would then come in to effect in early 2019.

Cost recovery

7.19. It is important that DCC is appropriately funded, and has clear obligations for its CRS role so that it is not impeded in meeting its obligations.

Funding

7.20. In our June consultation we set out our position that, in the short-term until REC v2.0 comes in to effect, the existing charging arrangements would be utilised for DCC to recover its costs in relation to the DBT phase. The arrangements and methodology for DCC's cost recovery in relation to the operation of the CSS in steady-state operations will be fully reviewed and set out within the enduring REC v2.0 due to come in to effect at CSS go-live, currently planned for 2021.

7.21. Under the current funding arrangements, the costs associated with the development, documentation and procurement of the CRS are being met by users of DCC Services through monthly fixed charges. The methodology for determining these charges are set out as fixed costs within Section K (Charging Methodology)[16] of the SEC. If any SEC Party feels this is not a fair or proportionate application over this period, they are able to raise a modification request to the SEC. The Charging Methodology is subject to modification in accordance with SEC Section D (Modification Process) with reference to the Charging Objectives set out in Section C (Governance).

Price Control

7.22. In extending DCC's licence obligation to cover the DBT phase and steady state operation of the service we need to put in place a price control framework to regulate DCC's revenue for its activities during these phases of the programme.

7.23. Taking into consideration the uncertainty and proportionality of the DBT phase and Post-Implementation period we proposed continuing to ensure DCC incurs costs in an

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[16] https://smartenergycodecompany.co.uk/the-smart-energy-code-2/

economic and efficient manner through an ex post plus arrangement. This received strong support in the June consultation[17] and we will be progressing this option.

7.24. As set out in June, this variant of ex post would require DCC to develop a business case in advance which is then reported against at the programme level. Aspects of these reports will be made available to the relevant programme governance groups during the DBT phase. This reporting should include progress against time, cost and quality for DCC's identified deliverables and activities. This is with the aim of making costs incurred, and cost changes relative to the baseline, more visible to stakeholders.

7.25. Our price control decision on DCC's acceptable costs and allowed revenue will remain ex post and against a zero baseline ie all incurred costs should be justified in the annual price control submission and review. As with the current arrangements, DCC will have an obligation to ensure regulated revenue does not exceed a prudent estimate of its allowed revenue. This justification will also cover switching related shared service charges.

7.26. DCC is in the process of developing its business case for the DBT phase. It is anticipated that this will be baselined for programme purposes early in 2019. We strongly encourage DCC to develop this business case with input from stakeholders, including Ofgem and the Switching Programme Commercial Forum. We will also require DCC to consult publically on the business case before baselining.

Margin & incentives

7.27. Our May 2016 decision document setting out DCC's role in the Switching Programme said that DCC can reasonably expect a margin for its Switching Programme activities which is commensurate with the degree of associated risk. We intend to carry this principle into the DBT phase of the programme. We are consulting here on the framework of margin DCC can earn on the costs it economically and efficiently incurs. This margin level will be adjusted subject to DCC's overall performance.

7.28. We are seeking views on the margin and incentives framework for the DBT phase. We intend to define this through updating our direction of the Centralised Registration Service Performance Adjustment (CRSPA) term[18] within DCC's licence early in 2019.

7.29. We are not consulting on an incentive regime for the Post-Implementation period or steady state operation at this time, as more development of how the service will be run is needed.

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[17] Since our June decision DCC have published their re-baselined business case for this phase of the programme which reflects further reduction in forecast costs to £16.4m.
https://www.smartdcc.co.uk/media/465377/schedule_of_changes_-_switching_internal_business_case__002_.pdf
[18]
https://www.ofgem.gov.uk/system/files/docs/2017/03/direction_on_the_value_of_crspa_under_the_smart_meter_communication_lice_1.pdf

Margin

7.30. We have considered DCC's role during the DBT phase of the programme and the risk profile associated with this. This has led us to conclude that the closest comparator is DCC in its current role in the Transitional Phase[19] of the Switching Programme. There are limited other direct comparators and this has led us to propose that for the DBT phase of the programme, the margin level for the Transitional Phase should continue. This would represent the allowable margin for DCC to earn if all incentivised milestones are achieved on time and following assurance that the acceptance criteria have been met to the required quality.

7.31. Any incurred Internal Costs that are not justified and/or are deemed uneconomic and inefficient in the annual price control review will be disallowed. This determines the Centralised Registration Service Internal Cost (CRSIC) term per regulatory year. Margin will be applied to this term and therefore margin will not be earned on disallowed Internal Costs. As with the SMETS1 programme, margin is not earned on External Costs. This means that margin cannot be earned on cost relating to Fundamental Registration Service Capability – as set out above this will cover the Registration and Address Service, Communications Network and System Integration costs. DCC estimate that External Costs are likely to account for the majority of DCC's cost base in DBT.

7.32. We proposal that, for the DBT phase of the programme, DCC will be able to earn a maximum margin of 12%[20] on Internal Costs. This will be reconsidered for the Post-Implementation period and steady state operations phases. This rate will be applied to Internal Costs (as defined by the CRSIC term) only and will not include an adjustment mechanism.

Incentives

7.33. We propose to put in place an incentives framework which will place DCC's margin at risk based on the timely delivery of milestones to agreed quality. These will be included within the direction defining the CRSPA term within DCC's licence.

Margin at risk

7.34. We propose to place all margin related to successful delivery of the DBT phase at risk eg margin on Relevant Service Capability along with design, test, delivery and commercial teams. Internal support teams would not be placed at risk eg regulation, and finance roles as these are covered by the existing Operational Performance Regime[21] and we want to avoid duplication and potential conflicts in incentive structures. Costs in relation to operational readiness would not fall under the DBT incentives framework so would also not be at risk at this stage of the programme. Any potential costs in relation to DCC acting purely to support the Authority in its role as programme sponsor during DBT would also not be placed at risk as DCC is not in

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[19] The Transitional Phase covered Blueprint, Detailed Level Specification and Enactment up to the point of Contract Award.

[20] The margin is applied as a rate of return added to Internal Costs which have been deemed to be economically and efficiently incurred. A 12% margin equates a 13.6% rate of return.

[21] https://www.ofgem.gov.uk/publications-and-updates/dcc-operational-performance-regime-principles-and-objectives

control of these costs or activities. This is a similar approach and methodology used for Release 2.0 of DCC's smart activities.

7.35. This does not set precedent for any future direction in relation to the CRSPA term or margin applications on any other activities.

7.36. We believe this is appropriate for the DBT phase of the programme where DCC is not fully in control of the programme ie Ofgem are still acting as the programme sponsor and therefore there are a number of internal support roles required to support and report into Ofgem. However, we acknowledge that to a large extent the timings and risks for the DBT phase are within the control of DCC and its service providers and therefore feel that the above approach to margin at risk is appropriate.

Milestones

7.37. We propose to have five milestones which are set out below and detailed along with a draft milestone plan in Appendix 3.

1) **DBT Readiness:** this milestone gives certainty to the industry parties to commence their design, build and testing activities through publishing the external CSS interfaces design.

2) **CSS PIT exit:** this milestone represents when the Address, Registration and Service Management Services have undergone pre-integration testing (PIT).

3) **SI Readiness for SIT:** planning and preparation activities for SIT, the development and agreement of the SIT Plan.

4) **E2E Testing Exit:** this milestone covers the Programme led E2E Testing which is the responsibility of the SI to define, manage and execute.

5) **Transition Stage 2 Exit:** this milestone represents successful completion of all Transition Stage 2 exit criteria where the registration service creates REL Addresses for population of CSS.

7.38. All these milestones fall on the critical path and are reasonably within DCC's control as the CSS contract manager. The milestones will be assessed against agreed programme exit / entry gate criteria – these will be set out in designated programme documentation. The programme SRO will agree when incentivised milestones have been met, supported by programme assurance.

7.39. We propose that margin at risk should increase gradually between stated time points. This is in order to ensure that DCC is still motivated to deliver each milestone as soon as possible after the initial target delivery date has passed. The design used to determine the relationship of margin at risk to time is captured in a margin loss curve. This is the profile that would apply to each of the milestones, and although each milestone would have the same shape, the gradient could differ given the difference between the time points.

7.40. To further ensure DCC is motivated to support the delivery of the overall programme, including subsequent phases, we propose that a quality and engagement driven recovery mechanism could be incorporated to some of the milestones. A recovery mechanism will allow DCC to reclaim a portion of lost margin on relevant milestones.

This is in line with the principle of incentives promoting the overall successful delivery of the programme.

7.41. Our proposals for the margin loss curve and recovery mechanism are set out in Table 3 below.

Table 3 – Proposals for margin loss curve and recovery mechanism

	Proposal	Questions
Portion of margin at risk / milestone	We want to ensure that the most time critical / important milestones and /or those with more direct impact on other industry parties' milestones are incentivised to a greater extent. However, we do not want to this to the extent that the other milestones are no longer significant. We have therefore proposed the below division for the portion of margin at risk / milestone. • Milestone 1: 35% • Milestone 2: 15% • Milestone 3: 30% • Milestone 4: 10% • Milestone 5: 10%	**Q:** Do you agree with the five incentivised milestones identified? Do you think any milestone should be given greater importance and therefore a larger proportion of margin placed at risk?
Margin loss curve	We propose a curved drop-off for margin at risk. We believe this is the best shape as DCC are initially incentivised to minimise the delay in achieving a milestone with an increasing penalty as time goes on until the point at which no margin is earnt. The initial shallower margin reduction should further help balance the quality and timely delivery with a sharper drop off as time progress. We propose to use the same shape of margin loss curve for each milestone as we believe the same principles apply for each milestone and does not introduce unnecessary complexity. For ease of calculation this curve is likely to be represented in the direction as a series of straight lines following the principle of steepening drop off in margin.	**Q: Do you agree with our proposals for the shape of the margin loss curves. Do you have any suggestions for other margin loss curves which may better incentivise DCC to achieve its milestones in a timely manner while encouraging quality?**

Time period for margin loss	We propose a fairly steep drop-off for the margin loss curve with the gradient defined by the time period between T and TD above. This period will be calculated based on: • the length of preceding activities to that milestone; • the impact on other programme participant timings; and • the overall impact on the full programme DBT timeline. Based on this, we have done an initial assessment of the draft DBT phase plan which is set out below. This will be adapted based on feedback on and development of the draft DBT phase plan. • Milestone 1: 4 weeks • Milestone 2: 4 weeks • Milestone 3: 2 weeks • Milestone 4: 4 weeks • Milestone 5: 2 weeks All margin loss curves will begin at the deadline for the milestones with the exception of Milestone 3. The margin loss curve will begin at the start of this milestone, reflecting the importance of starting SIT early and preventing costs to industry while they wait for SIT to commence.	n/a
Achieving milestones	Milestones will only have been deemed to have been successfully completed following assurance that the agreed quality criteria have been met. This will include the relevant entry and exit criteria which will be agreed within the programme. This will be judged through external assurance. Where relevant, the criteria will include assurance that the number of incidents/issues arising in later stages are within acceptable tolerances. Milestones can begin later provided that DCC can demonstrate that circumstances outside their control affected the start of the milestone. DCC will use the programme change process to apply for a delay in the deadline, similar to the current process under the Transitional Phase.	n/a
Recovery mechanism	We propose to allow a capped recovery of a portion of lost margin based on certain requirements being met. We propose capping this at between $1/3$ and ½ of total margin lost. Any allowed recovery would be at the discretion of the Authority. We do not believe it is appropriate that all margin should be recoverable as other programme parties will be impacted by delays.	**Q: Do you agree with our proposal for a potential recovery mechanism? Please give reasons.** **Q: What portion of lost margin should be available to be**

	The criteria for recovery are: • It can be demonstrated that DCC managed any delays well with clear communication to relevant stakeholders when any potential risk of delay arises and action is taken to mitigate the impact on other programme participants. This will be assessed through the continuing stakeholder surveys;[22] and / or • Delay in meeting a milestone can be clearly and unequivocally demonstrated that it was in the interest of resolving issues to de-risk future programme phases. This could be demonstrated through a lower than expected number / scale of incidents arising post Go-Live. DCC would only be able to apply for any recovery based on either or both of the above criteria and if the Go-Live date falls within the bounds of the programme DBT phase plan.	recovered? **Q: What types of criteria could be considered for demonstrating clear, transparent communication?**

7.42. We are not proposing that any incentive will be given to DCC for early delivery as this is unlikely to support or de-risk early delivery of the programme overall and could add additional uncertainty to the plan.

Discretionary milestone

7.43. We believe that it is in the interests of consumers that the creation of 'gold-standard' REL Addresses for all meter points should occur as early as possible in the life of the CSS. It is anticipated that a minimum requirement for the proportion of 'gold-standard' REL Addresses will be included in the REC, reflecting the outcome of the current procurement process for the Registration Service and Address Service. However, we think that there would be merit in incentivising DCC to go above and beyond that reasonably established requirement in order to achieve a higher proportion of 'gold-standard' REL Addresses, in a manner that is economic and efficient. This would deliver real value to the end consumer and help de-risk the programme in the long-term. This small, capped incentive to over-achieve would be mirrored by an equal downside which would apply if the data is not completed to required REC standard within the agreed timeframes. Costs in relation to this will be subject to price control and must be incurred economically and efficiently.

7.44. Discretionary rewards are used across regulated industries and act as one time rewards which regulated entities can apply for if they choose. The Authority would then

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[22] An independent company carried out a survey of programme participants asking questions on DCC's communications and openness. The results of this and DCC's response including proposed plans to further improve on the results will be discussed with stakeholders and published on the DCC website later this year. This survey will be repeated early next year.

bestow the award only if it could be demonstrated that pre-defined evaluation criteria had been met.

7.45. Discretionary rewards can be particularly useful when there is:

- no baseline against which to set quantitative targets;

- no real incentive within the existing market; or

- a need to encourage behaviour for one-time activities.

7.46. A discretionary reward would be applicable for this activity as it is a one off delivery activity that offers significant advantages to the programme and to the end consumer. Although the baseline will be established and set in the REC, it having been demonstrated and agreed to represent an ambitious improvement on the current level, there is no baseline to assess quantitative levels for what is possible in exceeding these targets.

7.47. The REC will also set obligations for continual improvement in the proportion of 'gold-standard' REL Addresses with the aim of approaching 100%. We therefore do not see this as additional expenditure or activity over the length of the programme but bringing forward activities to deliver consumer benefits earlier and with the aim that this may lead to longer-term efficiencies.

7.48. We therefore propose that DCC could receive a capped discretionary reward from the authority where it can be demonstrated that it has gone out of its way to deliver address quality higher than that set out within the REC and that this is delivering real benefit to the programme and end consumer. We would propose capping this at a fixed value – potentially in the region of £150-200k. This would be mirrored with a capped penalty of the same value if DCC is unable to deliver the set standard within the planned timelines eg if DCC was late in delivering this milestone it would be penalised in the region of £150-200k.

7.49. This does not set precedent for any future direction in relation to CRSPA or incentives / rewards for any other DCC activities and should not be seen as additional margin. We believe this is a one-off event within the programme where we should encourage every effort to seek a way to economically and efficiently look to improve on the standard agreed within the REC within the set timelines. We believe this should be encouraged as analysis from stakeholder engagement suggests that poor quality data is the cause of approximately 80% of delayed, failed and erroneous switches.

7.50. We expect the introduction of the REL Address to limit these negative outcomes. A higher proportion of 'gold-standard' REL Addresses should lead to lower incidence of delayed, failed and erroneous switches than would otherwise have occurred.

7.51. We believe this is one area where an additional one-off incentive could help ensure that the overarching programme objective is met.[23]

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[23] As stated in our Outline Business Case, the objective is to improve consumers' experience of switching, leading to greater engagement in the retail energy market, by designing and implementing a

7.52. We propose to set a series of criteria that must be demonstrated in order for any reward to be considered:

- exceeding the target set within the REC should not represent any additional spend over the length of the service provider contract(s)
  o for example, this could be demonstrated through showing that the activities required to exceed the REC target are future activities brought forward;
  o with these activities brought forward with the aim of improving quality at an earlier date with potential for cost efficiencies over the length of the service provider contract(s);
- costs should be contained within FRSC;
- demonstrated that costs will not be, or have not been, increased for any other activity as a result of exceeding the standard set in the REC;
- all costs must be justified as economic and efficient through price control;
- the relevant REC governance bodies will be engaged in any advanced business planning to exceed the REC target and/or engaged in demonstrating that the REC target has been exceeded; and
- the REC target must be met or exceeded in advance of the set programme milestone. There will be a capped discretionary downside if the milestone is missed.

Next steps

7.53. We plan to further develop the approach to margin and incentives for the DBT phase of the programme over the rest of 2018. We will take on-board any feedback received as part of this consultation. Our intention is to discuss this further with members of the Switching Programme Commercial Forum ahead of publishing our decision and issuing the updated direction for the CRSPA term in early 2019.

new switching process that is reliable, fast and cost-effective. This will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

8. The Way forward

Chapter summary

This chapter sets out how we plan to proceed with the development of REC v2.0 and v3.0 in parallel, along with the consequential modifications to the current industry codes through the SCR process, and development of forward looking licence modifications.

We consider that it may be appropriate to launch a second SCR to run alongside the Switching Programme, in order to capture all of the necessary consolidation and other administrative improvement that can be made, which do not comfortably sit within the scope of the Switching Programme itself. Whilst we seek views in principle at this time, we would not expect to take a decision on whether or not to launch a second SCR until the drafting has been completed at the end of March 2019.

Questions

Question 8.1: Do you agree with the proposed collaborative approach to consultation and modification report production?

Question 8.2: Would you in principle support REC v3.0 code consolidation being progressed as a SCR separate to, but run in parallel with, the Switching Programme SCR?

Background

8.1.   As noted in our June document, we consider that the introduction of the REC will have impacts on a number of codes and licences. In terms of number of codes impacted, this will be the largest SCR to date, and of the sort we had in mind when we introduced these powers, in terms of their being no single organisation or group of licensees who we could direct to give effect to our conclusions. Ofgem is the only *common denominator* across all of these codes. As such, we consider that the best way to ensure that there is a coordinated approach across the entire suite of code modifications, licence modifications and the development of the REC itself would be for Ofgem to continue to lead the end-to-end process and retain responsibility for the drafting of the modifications themselves. The majority of respondents who commented welcomed this approach.

8.2.   However, we recognise that we do not possess the same level of specialised knowledge as some of the code bodies, and in particular do not have the same experience of drafting quality code modifications. We are conscious that even a relatively straightforward modification could have unforeseen consequences if its full implications are not understood and/or the end-to-end integrity of the code maintained.

8.3.   This would also be the first time that Ofgem has undertaken such a role in the SCR process, having previously directed relevant licences to raise the necessary modifications. We have therefore been in discussion with each of the code administrators and their respective Code Panel or equivalent body, in order to

progress a fully collaborative approach to the development of code drafting. Our proposals, which so far have received strong support, are set out below.

Phase 1: Development

8.4. With the publication of this document and accompanying draft of the REC v2.0 Schedules, work can begin in earnest on the assessing the consequential impacts on the current industry codes and developing appropriate modifications in response. In some cases, these may be relatively obvious. For instance, where we have indicated that provisions will be moved wholesale from the SPAA to the REC, there will be no replacement text required for the SPAA, the focus will instead on the orderly winding down of that code.

8.5. Where codes such as the BSC include references to the MRA, we would expect these to be replaced with references to the REC, to the extent the relevant provisions will be migrated to that code. However, we cannot assume that all necessary modifications are this straightforward and care will need to be given to have appropriate regard to the new market role in the form of the CSS, and particularly to consider whether the shortened switching timescales have implications for other processes, not obviously within scope of the switching activity. We are also keen to ensure that following modifications, other industry codes retain their end to end integrity and that there are no unintended consequences. As with most code modifications, this will require a degree of specialised knowledge on each code.

8.6. We will rely heavily upon the relevant code bodies and their legal advisors to undertake the initial assessment of what the consequences of the REC coming into existence will mean for their code. However, given the number of codes involved and scale of the likely changes, that cannot practicably be done by each code in isolation and must be a collaborative effort. We consider that this will be the only way that we can ensure the assessment and subsequent drafting are fully complementary, and do not result in duplication, gaps or incompatibility with overall retail governance. In order to ensure a fully joined up approach to this collaborative working, Ofgem will retain an overarching coordination role, and working with our legal advisors, provide end to end consistency checks, guiding and revising instructions to each of the specialised code lawyers as and where appropriate. In this, we are fortunate to have a legal advisor that is very familiar with and has previously undertaken drafting on several of the industry codes. We therefore envisage a *hub and spoke* model as shown in illustration 1 below:

Illustration 1: Hub and spoke model for codes collaborative working

8.7. As indicated in the diagram, we will continue to work on the development of the REC drafting itself with the Regulatory Design Team, which will be expanded under revised Terms of Reference to incorporate expertise from each of the relevant codes. In developing the consequential drafting to all impacted codes in parallel with that of REC v2.0 and v3.0, we aim to take a holistic view on how and where any issues may be best addressed. In this regard, we anticipate that there may also be reciprocal changes to the REC drafting resulting from the impact assessment of each code.

8.8. We will also undertake informal consultations on the code drafting as it evolves. This may involve a combination of the existing Regulatory Design User Group established under the Switching Programme, through which we have undertaken informal consultation on the evolution of the REC to date, and/or relevant code workgroups as appropriate. Anyone wishing to be added to the relevant distribution lists is welcome to contact us via the details provided at the front of this document.

8.9. Whilst we do not seek to prescribe the process and low level timetable that the review of each code should follow, we do request that the initial assessments be completed by the end of the year, in order that drafting may be completed by the end of **March 2019**. In order to achieve this, we expect to work closely and intensely with relevant code bodies and their advisors, rather than placing substantive reliance upon workgroups for development. Industry workgroups will have an important role to play, though we anticipate that this will effectively be acting as steering groups and providing feedback to the code bodies. These are in effect pre-modification discussions.

Phase 2: Maintenance

8.10. We aim to complete and publish a complete and fully complementary package of legal drafting by the end of March 2019, which following a period of consultation and incorporation of comments, would then be baselined. This complete package should include:

- Complete REC v2.0;

- As far as practicable, REC v3.0 (we recognise that there may be residual issues on matters such as the Green Deal, which prevent draft text being completed but may nonetheless have a clear way forward);

- Consequential modifications to all impacted industry codes; and,

- Indicative drafting of future (ie coming into effect at CSS and REC v2.0 go-live) licence modification.

8.11. Whilst we aim to have completed all of the necessary drafting at this stage, we do not propose that this will be the point at which we issue our SCR conclusions. To do so would effectively start the clock on those modifications being given effect. Rather, this phase of the SCR will continue through to point at which we have successfully exited systems testing and a go-live decision has been made, and the date of that go-live is known.

8.12. It is important to note that we cannot and do not wish to impose a moratorium on change during these period. Change Requests will emerge from within the programme, and from outside, which are likely to have an impact upon - and if accepted need to be reflected in - the baselined text. The effect of the SCR provisions being in effect over this period mean that any changes raised to the impacted industry codes must, as now, be assessed as to whether they would have an impact upon the Switching Programme. In summary:

- any proposals which do not impact upon the Switching Programme or consolidated drafting will be allowed to proceed through the modifications process as normal;

- any proposals which do impact upon baselined drafting but do not impact upon the E2E design of switching systems will be allowed to proceed through normal code governance, but with **legal drafting to be prepared and consulted upon relating to both the live code and the consolidated drafting**, to be decided upon in the round by the Authority:

  o approved code modifications may be directed to be implemented as normal and;

  o a revised version of the baseline released capturing that (and any other) approved change;

- modifications which do impact upon the end-to-end design will be suspended, subject to, and pending the outcome of, an impact assessment and/or Change Request to be determined by the Authority under programme governance, as set out in Appendix 4 and may subsequently result in changes being approved in

relation to each of the end-to-end design, the consolidated drafting and/or the relevant industry code.

8.13. We would therefore expect consideration of the impact on the Switching Programme and the consolidated drafting to be an integral part of any code modification raised and progressed in the period of maintenance. We have discussed this with the code administrators and expect that a change will be made, whether temporary or otherwise, to reflect this joined up approach to assessment with this (and potential any future) SCR is active, as may be reflected in a revision to the CACoP.

8.14. In adopting this approach, it is hoped that we can strike an appropriate balance between maintaining momentum on the Switching Programme and the integrity of the consolidated text, whilst allowing normal modification business to continue. We also note that, notwithstanding our intention to wind down the SPAA and MRA, each of those codes will continue to play an important role in governance until the cutover to the new switching arrangements, and any proposed changes which would be of benefit in the intervening period will still be encouraged. We acknowledge that some proposals which may ordinarily have been accepted may no longer provide the necessary return on investment before they are superseded, but in maintaining this holistic approach we would hope that good ideas can be carried over into the new regime.

8.15. We therefore expect to periodically re-release the baselined drafting, setting out any revisions that result from approved programme Change Requests and/or code modifications.

Phase 3: Implementation

8.16. We currently expect the CSS go-live decision to be taken Q1 2021/22, as shown in the milestone plan set out at Appendix 3, but are not at this stage able to confirm what the subsequent lead time between this decision and the actual go-live date will be. Once the go-live decision is made, Ofgem will formally raise the necessary code modifications. Maintaining the consolidated drafting in the manner described in phase 2 above will ensure that it remain relevant and ready to use at this point, avoiding the need for a substantive revision or further development. Nor will any alternative proposals be allowed at this stage. The implementation date for the proposed modification(s) will match the CSS go-live date.

8.17. Each code administrator or manager will then follow the relevant procedure for Authority modification proposals, as set out in their respective codes. Notwithstanding the likely volume of consolidated text, given that we will have maintained, consulted upon and decided any change requests along the way, we would not expect this final consultation to be lengthy. The actual timelines will be determined nearer the time, and driven by the need to complete the modifications process ahead of the directed CSS go-live date.

8.18. In order to ensure that the timelines across all codes remain aligned and to reduce the burden upon parties who may otherwise be asked to respond to up to eight consultations on essentially the same proposal, we consider that it would be beneficial to undertake this consultation as a joint and collaborative exercise across all impacted codes. Each panel would assess the proposal insofar as it relates to their own code, against the relevant objectives of that code, but all consultation responses and subsequent recommendations will be captured within a single final modification report.

Question 8.1: Do you agree with the proposed collaborative approach to consultation and modification report production?

8.19. As covered in Appendix 1 in our response to a question posed by a consultation respondent, the fact that these modifications will be progressed through the SCR route does not remove or inhibit the requirement for Panel members to consider them against the relevant code objectives and make a recommendation on whether to accept or reject accordingly.

8.20. In keeping with the consolidated approach taken to the SCR up to this point, we would expect to make a decision on each of the code modifications, including the direction to implement v2.0 at the same time. We would also expect the decision letter to include a statement formally closing the SCR.

Licence modifications

8.21. In parallel with this SCR activity, we plan to have undertaken informal and statutory consultations on the licence modifications that we also expect to take effect at the CSS implementation date. Given the necessary lead times, including the 28-day statutory consultation and 56-day fallow period, it is likely to be necessary to complete these consultations in advance of the SCR implementation phase outlined above. As the CSS implementation date may not be known at the time of the statutory consultation, it may also be necessary for the effective date of the licence modification to be subject to a further direction of the Authority, itself being linked to the go-live decision.

SCR Scope

8.22. Our June document set out the changes that we proposed to make to the SCR scope, reflecting changes in circumstances or our thinking since it was published as part of the November 2015 launch statement. As set out in Appendix 1, all of those who responded to this specific question supported the changes proposed, with a few offering further suggestions. Where appropriate, these have been incorporated into the revised scope below.

8.23. The Switching Programme SCR scope includes:

- Changes to the regulatory framework to facilitate a new Central Switching Service (CSS), covering all supply points connected to gas and electricity distribution networks; this will include DCC funding and cost recovery, and enduring CSS charging arrangements, which will be recovered via the RECCo from suppliers, in accordance with a charging methodology to be contained within the Retail Energy Code.
- Reviewing other associated requirements to master and supply data to facilitate the retail energy market and to provide enquiry services, for example in relation to UK Link, MPAS, ECOES, DES and DCC Smart Metering Services.
- Developing the requirements for a new CSS that will provide switching services for the gas and electricity market and the data to support market functions, including energy settlement and network charging.
- Facilitating reforms to the switching process for all domestic and non-domestic gas and electricity consumers (with the exception of those consumer types detailed below) to deliver faster, reliable switching.
- Harmonising the switching arrangements between the gas and electricity markets, where possible, taking into account differences in market requirements.

- Defining and identifying how to execute a transition and implementation scheme for the CSS and new switching arrangements, including changes to other impacted central systems.
- Implementing the Switching Programme with all relevant industry parties who will operate in the new environment.

8.24. The scope excludes:

- The initial consumer acquisition activities, eg marketing, before the point when a consumer seeks to enter into a contract.
- Defining new rules or requirements for how suppliers bill their consumers. But it should ensure that the new arrangements support suppliers in meeting their requirements for timely and accurate billing.
- Security keys are designed and built into smart meters as part of the smart metering installation and roll-out. Transitional arrangements reliant on the DCC exist to support changing the keys to the new supplier during the main installation stage. For the long-term however, the Smart Metering Implementation Programme led by the Department for Business, Energy and Industrial Strategy (BEIS) is considering alternative arrangements. The CSS will support the new arrangements when they are implemented.
- The switching arrangements for consumers that are directly connected to the national electricity and gas transmission networks. These operate bespoke switching arrangements, and we are focusing on the arrangements for the majority of consumers.
- Industry code consolidation that is not directly relevant to, or impacted by, the switching arrangements. The Switching Programme will remove major parts of existing codes, and incorporate new switching rules into the Retail Energy Code. We recognise that this is an opportune time to rationalise some of the industry codes, where significant aspects of particular codes would, going forward, be covered within the Retail Energy Code. Where this cannot appropriately be achieved under the auspices of the SCR this work would be undertaken as a separate project, but wherever possible following complementary and coordinated timelines. We will work with stakeholders to produce a coordinated industry work plan to this effect.
- Centralising Data Processing (DP) and Data Aggregation (DA).
- Consumer awareness campaign. The scope of the Switching Programme includes delivering a consumer awareness campaign. However, we do not expect this to be delivered through changes to industry code obligations. We have therefore not included it within the scope of the Switching SCR.

8.25. As set out in this document, we recognise that there remains a lot of work ahead in delivering all of the necessary code changes to facilitate this programme. It is possible that further issues will arise in the development of the REC and/or the consequential modifications to other codes which, despite the revisions above, are not obviously within or outside of scope of this switching programme SCR. We will therefore keep this under review over the coming months and seek to confirm our view on the final scope of the SCR and future modification once the full implication of the consequential drafting is known.

8.26. However, it seems clear that we cannot reasonably pursue all of the work required to facilitate the orderly winding down of the SPAA and MRA under the auspices of it facilitating faster and more reliable switching. We must therefore give effect to the necessary changes, including the full implementation of REC v3.0, through other

means. We had previously suggested that this work could be pursued through normal modifications once the REC was live. However, we have heard the concerns of parties that this process would be protracted, with no certainty of an orderly or timely outcome. It would also diminish much of the value that we see in pursuing these REC v3.0 developments in tandem with the consolidated drafting mentioned above.

8.27. We are therefore considering whether it would be appropriate to pursue any retail governance consolidation that cannot reasonably fall under the auspices of REC v2.0 and the Switching Programme, as a separate but parallel SCR. In effect, both strands of work are complementary and will share many common resources. For instance, we propose that the drafting would be done as part of the process outlined above, further developing the future content of REC v3.0 as set out in chapter 6. This would minimise the administrative burden upon and uncertainty for industry parties, while ensuring as far as practicable that all provisions to be migrated into the REC can be given effect at the same time.

8.28. Subject to responses, we would expect to confirm our view on whether it would be appropriate to launch a separate SCR as part of the consultation on consolidated drafting circa end of March 2019. If there remains support, we will look to consult upon this further, including the scope of such a SCR, as part of our Forward Work Plan.

Question 8.2: would you in principle support REC v3.0 code consolidation being progressed as a SCR separate to, but run in parallel with the switching programme SCR?

Appendices

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Appendix 1 – Consultation Responses

1.1.   Table 4 below shows the list of parties who responded to our consultation. Non-confidential responses have been published on our website at:
http://www.ofgem.gov.uk/publications-and-updates/switching-programme-proposed-modifcations-regulation-and-governance or can be accessed individually via the links below.

Table 4: List of respondents

	Name	Confidential
1	Bristol Energy	No
2	BU-UK	No
3	Cadent	No
4	Centrica	No
5	Citizens Advice	No
6	DCC	No
7	Drax (Haven & Opus)	No
8	EDF	No
9	Electralink	No
10	Elexon	No
11	ENW Ltd	No
12	Eon	No
13	ESP	No
14	EUK	No
15	Extra Energy	No
16	First Utility	No
17	Gemserv	No
18	ICoSS	No
19	Intergen	No
20	Moyle	No
21	MRA EC	No
22	NG-ESO	No
23	NGG	No
24	NGN	No
25	Northern Powergrid	No
26	Npower	No
27	RWE Trading	No
28	Scottish Power	No
29	SEC Panel	No
30	SGN	No
31	Smartest Energy	No
32	SPAA	No
33	SPEN	No
34	SSE	No
35	Utilita	No
36	WPD	No
37	WWU	No
38	Xoserve	No

Summary of responses

1.2.   As the non-confidential responses have been published in full, this Appendix summarises only those comments that we have considered pertinent or have influenced the drafting of the proposed licence modifications and/or REC Schedules. Therefore, neither the summary of responses nor our response to them are intended to be exhaustive.

Chapter 2: Transitional requirements

Question 2.1: 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?

1.3.   The majority of respondents supported the proposed duty to cooperate. They recognised that the Authority's remit and responsibility does not traditionally extend through to the implementation of IT systems and other operational matters that will increasingly need to be considered in a holistic manner if policy initiatives are to be successfully delivered. Some referenced previous programmes that may have been delivered earlier or more efficiently if greater cooperation between all relevant parties had been evident. However, some felt that the potential application of the duty was too broad, and could require licensees to undertake potentially onerous activities on any project whatsoever at Ofgem's behest. They suggested that Ofgem should have regard to such burdens and/or develop a risk based approach to this requirement.

1.4.   One respondent, which is an interconnector licensee, had some concerns with the specific wording of the proposed duty, but more generally considered that there would only be limited circumstances in which an interconnector would be required to cooperate with a SCR. They also felt that having such a "one size fits all" approach could lead to unintended consequences. Another queried whether the duty would extent to activities that the licensee may undertake such as sitting on code panels.

Ofgem response

1.5.   We agree that the scope of SCRs are likely to be of less relevance to interconnectors than to other categories of licensees. However, we consider that it would be imprudent to rule out such a possibility. Whilst the licence drafting itself is generic, we do not anticipate the application of this duty to be a one size fits all; rather, the requirements will be determined on a case by case basis.

1.6.   We have tightened the drafting of the proposed duty such that it would only apply in circumstances where the Authority has consulted upon, and given formal notice of, matters being taken forward as part of a SCR. We would expect that all future consultations would, as they have done to date, specify why the Authority considered a matter to be of particular significance in relation to its principle objective and general duties such that it warrants being progressed as a SCR. In developing the scope of such a SCR, it should be clear which code and therefore which licensees are, and are not, expected to engage in its successful implementation, as well as in what way and how they are expected to engage. For the avoidance of doubt, this duty would not extend to any role the licensee may have on a code panel or in any way restrict their rights or obligations under code modification rules, including their ability to vote in favour or against a given modification proposal. More generally, as with all activities it undertakes and instances where it uses its powers, the Authority must have regard to its duties, including having regard to the principles of better regulation and to act reasonably at all times.

Question 2.2: 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?

1.7.   The majority of respondents (20) gave clear support for RECCo being established earlier than RECv2. None were opposed to the early establishment of RECCo, though some qualified their answers, pointing out both advantages and disadvantages.

1.8.   A summary of the reasons given by those who argued in favour is listed below

- Increased stability and preparedness for the programme
- Facilitates an orderly transition
- Will provide useful collaboration with industry during the programme delivery phase
- Earlier establishment will create cost savings and will limit potential risks
- Creates a sufficient level of time to confirm appointments of the board and related positions

1.9.   Respondents placed an emphasis on how RECCo being established earlier than RECv2.0 will allow the appointment of a board, code manager and REC Panel. Emphasis was also given how extra time will allow the establishment of the appropriate funding mechanisms. One respondent stated that their support for the establishment taking place early is wholly predicated on people of the right calibre and competencies being appointed to the required roles. A number of respondents called for confirmation that the benefits of an early implementation would outweigh the costs that would be incurred.

1.10.   One respondent stated that whilst they see the benefits that would be brought to the programme management, service procurement facilities and support, they could not support the establishment of the RECCo early if this also required DNO accession to the REC at v1. They considered that REC accession should only be required when the drafting is finalised.

Ofgem response

1.11.   We remain of the view that it would be beneficial to the orderly build-up of the REC governance, and for the remainder of the switching programme, to establish the RECCo relatively early. Not least, we consider that it would be appropriate for the appointment of a REC Manager to be made by the RECCo Board, rather than Ofgem for example. In order to do so, it will be important that the RECCo has access to secure funding. This would suggest that whilst much of the work to establish the RECCo can be done immediately, it should be incurring costs (other than those already agreed to be funded through the SPAA and MRA) until the start of the 2019/20 financial year. At this point, we would expect that the RECCo will be in a position to recover its costs from funding parties.

1.12.   We agree with the respondents who raised concerns about the benefits of RECCo establishment outweighing the costs. We are conscious that v1.0 of the REC will operate alongside all of the current codes and not replace them. The interim governance that we put in place as part of REC v1.0 is therefore proportionate and minimises administrative cost. We will also look to ensure that any REC Manager that may be appointed is able to ramp up its activities as and when required, through to being fully established at the time REC v2.0 is implemented, so that its charges are commensurate with the activities it is undertaking and the value it is providing.

1.13.   We do not agree with the respond who suggested that early establishment of the RECCo would require accession to REC v1.0; that is in fact a requirement that we are placing upon relevant licensees through modifications to licence, as set out in the statutory notices accompanying this document. The timing of accession therefore has little or nothing to do with the creation of the RECCo itself, though we do sympathise with the more general point that licensees should be able to see as much content of the REC as possible. It is for these reasons that we have not only published draft text for v1.0 and as far as practicable for v2.0, but also set out clearly the content that we would expect to migrate into the REC from the SPAA and MRA.

Question 2.3: Do you agree that the bodies constituted under the REC could suitably play a formal part in the programme governance?

1.14.   Of those that responded, a strong majority (22) agree that the REC could suitably play a formal part in the programme governance. Only one respondent did not agree.

1.15.   The main arguments given in favour of the REC playing a formal part in the programme governance are listed below:

- The involvement is critical to the establishment of any effective and proportionate performance assurance and framework
- Reduces any potential risks and helps resolves and issues early
- Provides engagement through capturing stakeholders views which will provide them with confidence in the process
- Supports and ensures a smooth and orderly transition
- Allows for efficient delivery and increased transparency

1.16.   One respondent asked that this proposal is made a priority for Ofgem since the early formation of a RECCo board and REC panel will enable structured support for the development of the REC arrangements as well as the transition. Another respondent while agreeing with the proposal, asked for clarification of whether the funding during the transitional period would come from suppliers only.

1.17.   There was also a request for assurance that there would be no parties not participating in the programme governance would not be disadvantaged. They suggested that those individuals who participated should do so on behalf of the retail sector as a whole, rather than representing their own interests.

Ofgem response

1.18.   We welcome the support for the bodies constituted under the REC being given a recognised role under the governance of the programme, as we remain of the view that this will facilitate an orderly transition from programme to business as usual governance. We will further develop and set out our thinking on how and when these bodies will be formed and integrated into the programme in due course.

1.19.   We also envisage the REC Manager playing an important role in maintaining the collaborative working arrangements established as part of the SCR process, in order to ensure that the draft text for all Industry Codes remains relevant and consistent. Part of this will be to ensure that the impacts of any proposed change are considered fully, and that any decision taken under programme governance has full regard to those impacts.

Question 2.4: Do you agree that our definition of 'large supplier' in REC v1.0 is suitable for ensuring an adequate level of engagement with User Entry Process Testing?

1.20.   The majority of those who responded (18) agreed with Ofgem's definition of 'large supplier' and believe it is suitable for ensuring an adequate level of engagement with User Entry Process Testing (UEPT). The reasons given for support were generally around the consistency of this approach with the threshold for existing obligations elsewhere. They considered that moving away from the established threshold would cause confusion for industry participants.

1.21.   Four respondents disagreed with the definition and others argued that a broader range of suppliers would be needed to ensure an adequate level of engagement with UEPT. Others suggested that the definition didn't take into sufficient account the differences between different types of suppliers, particular domestic and non-domestic, whose needs of the registration system(s) may differ.

1.22. One respondent noted that suppliers who fall below the threshold may be use a service provider to complete their switches. If the combined total across smaller suppliers is taken into consideration, then service providers could be involved in a large number of switches. Therefore, the respondent asked Ofgem to consider whether there would be any benefits to include service providers in the early testing requirements.

1.23. It was argued that requiring only large suppliers to enter UEPT there would be an even greater cost burden on suppliers that are already funding the programme based on market shares. There was a suggestion made that suppliers with 50,000-250,000 RMPs should also be required to enter UEPT as soon as the system is available.

Ofgem response

1.24. Our policy intention is that large suppliers, and therefore a significant proportion of the retail market, is ready to enter UEPT at the point at which the environment becomes available, and subsequently be on track to enter and complete end to end (E2E) testing. This is not intended to be exclusive to those large suppliers, and we would not only welcome but encourage other parties to enter UEPT that the same stage, they will simply not be subject to the same deadline to do so. All parties will however be required to have completed UEPT before interacting with the live CSS. This will be an entry requirement for all existing licenced parties interacting with the CSS, and form part of the entry requirement for future market entrants.

Q2.5: Do you agree that it would be appropriate to have in place interim governance arrangements prior to REC v2 coming into effect?

1.25. There was strong support to have in place interim governance arrangements prior to REC v2.0 coming into effect with 20 respondents expressing their approval. Those in favour agreed on the basis of increased stability, a smooth transition to enduring arrangements, the addition of experienced expertise and increased clarity to parties on what is expected from them and the services that will be provided.

1.26. One respondent disagreed since they believe that the establishment of RECCo and its subsequent board and panel should be capable of being done within a time frame where interim arrangements are not required. The respondent saw no reason why the proposed interim arrangements could not be facilitated with a REC v1.1 introduced for that specific purpose.

1.27. There was also strong support for Ofgem to act as the interim REC Manager. However, one respondent raised concerns regarding the role of the REC Manager when it comes to change requests. The respondent called for consideration to be given to the need for the relevant core skills to undertake change request duties and accountability to Ofgem.

1.28. The primary concern raised by respondents was the lack of inclusion of independent supplier members alongside SPAA and MRA members on the interim panel. Many respondents called for the inclusions of other market participants to be involved in the transitional governance arrangements to ensure all participants are engaged and represented and avoid any MRA and SPAA bias towards large suppliers.

1.29. There were also concerns raised about SPAA and MRA having limited resources to take on REC responsibilities as a result of industry resources being stretched. Two respondents raised a concern questioning whether the members of the MRA and SPAA committees have sufficient capacity to carry out additional REC duties.

Ofgem response

1.30.   We remain of the view that interim governance arrangements for the duration of DBT will both ensure a greater degree of continuity than would otherwise be the case. Whilst we agree with the respondent who suggested that it may be feasible to establish a bespoke and independent governance regime for the REC in time for, or immediately following, v1.0 being designated, this would not seem to be necessary or proportionate. There will be limited activity required of the RECCo Board and/or a Panel ahead of the designation of REC v2.0. For instance, change management will be subject to switching programme during this interim period, rather than through the REC. We therefore do not consider that participation on the RECCo Board (or any transitional group constituted under it) would require a substantial further time commitment, though it is of course a personal decision for the individuals concerned.

1.31.   We also agree that there may be opportunity to widen the pool of stakeholder representation and/or independence, even in the short-term. Although the RECCo Board may itself be limited in number, we propose that its most immediate and important task, namely the procurement of a REC Manager, be undertaken in large part by a dedicated procurement panel. This Panel may be made up both of REC Parties and wider stakeholders who possess the relevant expertise and have a legitimate interest in the appointment of the REC Manager. However, the final decision on who to appoint should appropriately remain with the RECCo Board, which we expect to be independently chaired.

Chapter 3: REC Governance

Question 3.1: 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?

1.32.   The majority of respondents agreed with our proposals, however, there are concerns that each of the roles are currently too broad and ambiguous, which may lead to duplication of work. The overarching duties, responsibilities and how these meet the REC objectives should be clarified, this would help to reduce the concerns around the current lack of clarity. Concerns were raised that the role of the REC Manager is very broad.

Ofgem response

1.33.   We acknowledge that the REC governance consulted upon in June was very much a work in progress, rather than an exhaustive description of the roles and responsibilities of the various bodies under the REC. We have sought to elaborate on our proposals within this paper and the accompanying REC drafting. We also acknowledge that the role of the REC Manager is broad, though that is deliberately the case and we propose that it remain so. Our thinking on this is further explained in chapter 4 of this document.

Question 3.2: 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?

1.34.   The majority of respondents agree having NEDs at the RECCo Board would be beneficial as they wouldn't have a vetted interest, and therefore able to be impartial. They would also bring expertise from other industries which should provide different perspectives. However, it was noted that there must be some members of the board who have extensive experience of the energy industry. The NEDs would require necessary powers in order to raise concerns to Ofgem.

1.35.   A few respondents disagreed with the proposal, while others who generally agreed had some concerns about the additional cost of having NEDs on the panel, which would need to be justified. The proposed model hasn't previously been proven to be effective, which was

also a cause for concern. A respondent who have previously worked with NEDs commented that this can add significant costs, but can also add significant value.

Ofgem response

1.36.   We remain of the view that having non-executive directors on the (enduring) RECCo Board should provide additional value that far outweighs the costs of remuneration and other expenses. The energy industry faces constant challenge and this applies as much to retail activity as to any other of the energy supply chain. We have been consistent in our view that the REC not only should, be must, be a different type in code to those that the industry is currently familiar with. It should be a catalyst for beneficial change rather than simply reacting to and documenting initiatives originating elsewhere. We have seen the difficulties that existing code bodies have had in seeking to bring their own innovations and ideas to fruition. If the REC and specifically the RECCo are to make a significant contribution to helping the energy industry rise to its challenges, it must be given the necessary financial and intellectual resources, as well as mandate to do so.

Question 3.3: Do you agree with the proposed composition, powers and functions of the REC Panel?

1.37.   The majority of respondents agree with the proposals, but some also stated that independent panel members should be able to demonstrate relevant experience. Some felt that there is a risk that the panel could be made up of solely members from outside the industry, and therefore lack specialised knowledge on the energy market.

1.38.   Some respondents also raised concerns about were raised that unlicensed parties may have voting seats on the panel, which may not be appropriate, also that people. Some suggested that Ofgem should consider having the panel made up of elected members, with sufficient expertise across the panel and the need to ensure that all parties are represented fairly.

1.39.   Some disagreed with the allocation of powers to the RECCo Board and REC Panel, and considered that further clarification and justification was needed on the powers each will have.

Ofgem response

1.40.   We have given careful consideration to the views of respondents in further developing our thinking on the composition powers and functions of the REC Panel as compared to those of the RECCo Board, REC Manager or other bodies such as the proposed performance assurance board. We set out our revised proposals in this document.

Question 3.4: 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?

1.41.   Of those that responded a high majority (26) agreed with the testing requirements proposed for new market entrants. Only one respondent disagreed.

1.42.   Those that agreed primarily argued that it was correct that there is a level playing field in market in that there should be the same requirements for all participants. Respondents also heavily argued that by subjecting new entrants to these testing requirements there will be increased consumer confidence in the market.

1.43.   It was highlighted that the increased consumer confidence will be provided through the testing requirements protecting consumers from delays and problems during the switching process. The requirements will also ensure new entrants do not create extra costs

which would not be in the interest of the consumer. It was also argued that the requirements will ensure new entrants have systems capable of communicating effectively with the CSS which will have a significant, positive impact on not just consumers, but also on other suppliers.

1.44.   A number of respondents said that they have concerns that suppliers are able to enter the market without being adequately prepared to do so. It was argued that by placing entry and systems testing requirements on new entrants they would be properly equipped for the new switching arrangements and would not create extra issues and costs for existing parties.

1.45.   Two respondents, while agreeing in principle, noted that Ofgem should remain mindful that testing should not become a burden or a barrier to entry to the market. Requirements could easily be seen as a barrier to entry and the REC Manager should take an important role in considering entry requirements to prevent this.

1.46.   The one respondent who disagreed argued that they do not see the need to place such requirements on all parties. A recommendation was given for a risk-based approach to entry and systems testing requirements. The respondent suggested that all suppliers could be required to submit their plans for entry and systems testing and following independent reviews those who have submitted plans in the bottom percentile should be subject to more rigorous requirements to be audited on an ongoing basis.

1.47.   One respondent highlighted concerns that, potentially, system requirements, defects and issue management process could change significantly post-implementation meaning a similar level of testing requirements may not be needed for new entrants.

Ofgem response

1.48.   We welcome the broad support for harmonising entry testing across gas and electricity and note the concerns that that this should be proportionate and risk based. As described further in Chapter 5 we are now consulting on a draft Entry Assessment and Qualification REC Schedule (see Appendix 5).

Chapter 4: REC Content

Question 4.1: 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?

1.49.   Of those that responded, the majority of respondents (15) agreed with the proposed minimum content of the REC v2.0.[24]

1.50.   Five respondents suggested additional areas for inclusion in REC v2.0. We have listed the suggested areas in Table 5 below together with our view on whether these should be included in REC v2.

Ofgem response

1.51.   We welcome the strong support for our proposed content for REC v2.0. We have considered the suggestions for additional areas to be covered and have set out our views in the table below. Our updated view on the contents of REC v1.0, v2.0 and v3.0 are set out in

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[24] The proposed minimum content for REC V2 was published for consultation at the following link: https://www.ofgem.gov.uk/system/files/docs/2018/06/rec_proposed_content.xlsx

Appendix 5. This is our current view and further refinements may be made to contents of each version.

Table 5: Ofgem response on proposed additions to content of REC v2.0

Proposed additional content for REC v2	Ofgem view
Smart Prepayment and Legacy Prepayment	In June we said that we would develop an Exceptions Schedule but that this would not include Smart PPM issues around exception management and legacy PPM issues such as that appointment of a PPMIP. We have reviewed this proposal and decided that it would be better to develop a REC Schedule covering all aspects relevant for prepayment in one place. We expect to develop this for REC v2.0. This is discussed further in Chapter 4.
Facility to ensure Green Deal customers are only able to be registered to a GD licence.	We can confirm that a requirement to ensure that Green Deal customers can only be switched by Green Deal suppliers will be included in REC v2.0. This is expected to be set out in the Technical Document that will support the Registration Service Schedule. We propose to consider all other Green Deal requirements as part of REC v3.0.
Disconnection and reconnection arrangements	The REC v2.0 Registration Services Schedule describes the information that must be provided to the CSS when a meter point is disconnected or reconnected. We do not propose to include any further requirements on disconnection and reconnection in REC v2.0. We will give further thought as to whether these arrangements should sit in the REC or should move to other codes, such as the UNC and DCUSA.
Export MPAN's	We note that the MRA contains a voluntary working practice (WP 146) on management of Export MPANs. We will give further thought as to whether any requirements should be included in the REC and in which version.
Agent appointments, customer appointed agents	Agent appointment currently covered by the gas RGMA arrangements (governed under SPAA) and for electricity by the BSC. We will consider any requirements to migrate obligations as part of our review of REC v3.0.
Enforceability of supplier agent obligations	We expect any consideration of enforceability of supplier agent obligations to be included as part of the performance assurance framework. Our expectation is that suppliers are responsible for ensuring their agents meet their obligations.
List of active REC parties	We do not agree that it is necessary to include a list of active parties on the face of the REC. We would expect the REC Code Manager to maintain and provide this information on a website if this is considered to be of use to stakeholders.

Question 4.2: 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?

1.52.   Respondents were split on whether the REC Manager should collate Switching Domain Data[25] and make it available to Market Participants. Of those that responded, 13 supported this view and 10 considered that the Data Master for each element of Switching Domain Data should make it available to Market Participants.

1.53.   Of those that supported the REC Code Manager taking this role, the key arguments were that this would improve the consistency with which information is provided and overall efficiency for market participants.

1.54.   It was argued that a single view of this data would be more beneficial and efficient than having several locations for Switching Domain Data. Allowing the REC Code Manager to collate this data would make that single view possible. Using multiple databases, rather than a single view would risk the integrity of the switching regime.

1.55.   Those that thought that existing Data Masters should provide the data said that adding a role for the REC Manager to collate and make it available would add an additional layer of complexity. Some said that it would increase the risk that data will not be provided accurately or in a timely manner and that it could also increase central costs.

1.56.   Several respondents argued that changes to the system are unnecessary and that it would be more suitable to retain existing arrangements. It was argued that the existing processes for collating the data currently work and that there are no clear benefits of changing this.

Ofgem response

1.57.   In addition to the question asked in the consultation, we have also reviewed the potential for the REC Code Manager to provide this service for the CSS Provider. Our current view is that, as we expect Data Masters to continue to provide Switching Domain Data to CSS Provider directly, there is not a role for the REC Code Manager to collate and provide all Switching Domain Data to Market Participants. We agree with those parties that said that this would create unnecessary cost and complexity and would increase the risk of data being corrupted. We will review this position if new arguments are provided on the merits of the REC Code Manager collating Switching Domain Data before onward submission to the CSS.

1.58.   However, we do see a role for the REC Manager in providing guidance to the market on how Switching Domain Data should be accessed to help ensure that information being used is up to date. We do not propose to include this as a specific obligation on the REC Code Manager as we would expect it to provide this service if there is a demand from market participants.

Question 4.3: Paragraphs 4.20-4.24 of the June Consultation 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)?

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[25] The Switching Domain Data is described in Section 5 of the updated draft Data Management REC Schedule.

1.59.   Of those that responded, 9 agreed that DCC should be subject to a data quality objective and performance standards around the quality of REL Addresses. One respondent said that DCC should be subject to incentives as otherwise it was not directly impacted by poor data quality.

1.60.   One respondent did not support the proposal as it was concerned that, without effective obligations and incentives on other parties, DCC would not be able to sufficiently influence data quality.

1.61.   Many suggestions were provided on what to measure to assess data quality and the data quality levels required. These are summarised in the list below.

- Number and age of metered plot addresses
- Illegitimate duplicate addresses on the CSS database
- Number of blocked or erroneous transfers related to the poor quality of addresses including plot addresses
- Requiring each RMP to have a REL Address that allows it to be registered first time.
- Sample checks of REL records
- REL Address change requests received from industry parties
- Speed of clarifying new REL Address for new connections

1.62.   One respondent noted the role of networks in generating address details and said that there should be a league table showing relative performance in leading to ETs. They also argued that networks should bear the cost of address data cleansing. One respondent said that networks should not have a role in REL Address quality and one said that networks should be paid for providing assistance.

1.63.   One respondent advocated the need for flexible standards to get the right result. This included the use data analytics to determine link between ETs and certain issues (plot addresses, multiple occupancy sites, and premises without house number). Another respondent said that standards should be ramped up over the life of the contract and noted that such an approach has been employed for the Theft Risk Assessment Service

1.64.   There was support from 14 respondents for the REC Panel to have a role in setting data quality targets. Most thought that this should be initially and on an ongoing basis. One said that the standards should be developed by the REC Code Manager and agreed by the REC Panel and one urged that users should be involved in the process.

1.65.   Two respondents did not support the REC Panel having a role. One said that this should be undertaken by Ofgem as part of the procurement process and one considered that this should be agreed in the initial contract and there was little point in reopening negotiations.

Ofgem response

1.66.   We continue to think that the DCC should have a data quality objective and performance standards around the quality of REL Addresses. This is key part of the anticipated benefits of the Switching Programme. We also consider that performance against these standards should be incentivised where possible. The June version of the Address Management Schedule that we consulted on was drafted on this basis and we therefore do not propose to make any further changes to address this point.

1.67.   We welcome the suggestions on the data quality areas that should be measured and the levels required. We expect the areas and levels to be informed through the current CSS Registration and Address Services procurement exercise.

1.68.   We will give further consideration as to how any initial data quality measures should be set in the REC. Our current view is that the initial data quality standard will be set through

the procurement exercise, as will the ability to update these standards. As such we expect to incorporate these standards in REC v2.0 at go-live and for responsibility for updating the standards to then pass to an appropriate REC governance body. In the June consultation, we suggested that this might a role for the REC Panel. As described in Chapter 4, we have developed our thinking on the allocation of responsibilities under the REC. We now think that this should be a role for PAB.

1.69.   We further expect that PAB should consult and take into account views received on any changes to these standards. We expect that PAB should be able to discharge this obligation in the manner it sees fit, for example, by requesting that the REC Code Manager provides supporting analysis and recommendations. We have amended the drafting on the Address Management Schedule to clarify the role of PAB.

1.70.   We think this approach is consistent with the proposed DCC licence obligation on:

> *"proactive data stewardship for the Retail Energy Location Address that will lead to a very high level of continually improving accuracy for registerable meter points that meets or exceeds the standards set out within the Retail Energy Code."*

Question 4.4: Paragraph 4.25 of the June Consultation 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? If so, please provide your rationale for this and outline which market participants should have access.

1.71.   The majority of respondents (18) said that the REL Address data quality indictor should be made available to market participants. One respondent did not agree as it thought that this information should only be provided to the REC Performance Assurance Board for assurance purposes. Two further respondents said that this information should only be made available if it was proven to be of value, with one suggesting that this assessment should take place post implementation.

1.72.   The main arguments made by those that supported the provision of this data to market participants were:

- Allows suppliers to judge where to target additional validation checks;
- Promotes transparency;
- Increases confidence in when to apply a faster switch; and
- Helps to hold DCC to account on data quality and cleansing activity

1.73.   One respondent, in favour of the proposal, said that validation may lead to delays where suppliers were not confident in the quality of the REL Address data provided.

1.74.   On the question of who should have access to this data:

- Several respondents questioned why access should be restricted;
- There was support for access to be given to suppliers, TPIs, networks, MEMs and DC/DA; and
- One noted that provision to networks would help them target any improvements to the Meter Point Location address data that they held.

Ofgem response

1.75.   We consider that the CSS should be required to make the REL Address data quality indicator available to market participants. We support the views of those respondents that this will allow them to provide more informed judgements on how to manage the switching process. We recognise that, in some instances, this may lead the supplier or TPI to conduct

additional validation checks to, for example, ensure that they are switching the right customer. We note that the value of this quality indicator will depend on how it is implemented by DCC and information on how the REL Address data quality indicator should be interpreted should also be provided to users. We are looking for DCC to consider user requirements when developing its arrangements for the form of the quality indicator.

1.76.   We have not tested views of how this information should be made available to market participants. Our initial view is that this should be done in a way that allows it to be used by suppliers and TPIs as part of the contracting process. We also note the suggestion that this information could usefully be fed back to networks for the purpose of them reviewing the quality of their MPL Addresses.

1.77.   We have asked DCC to raise a Change Request to DB4 to include this requirement. We expect to use this process to determine the mechanism through which market participants should receive REL Address data quality information and any restrictions on this data access. Once any change request has been agreed through Switching Programme governance, we will update the Address Management REC Schedule.

Question 4.5: Paragraph 4.25 of the June Consultation 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?

1.78.   There was a strong level of agreement among respondents that DCC should set out the methodology it will use to meet the REL Address data performance standards on an annual basis.

1.79.   Respondents commented that this was needed to allow the REC Panel to set any KPIs and Service Levels, that the requirements much be transparent and cost efficient to industry and that this will increase accountability and allow for scrutiny and continuous improvement. Respondents also said that publication would allow other market participants to align with the approach described in the methodology.

1.80.   There was support among some respondents for the methodology to be consulted upon. One respondent said that there should be an annual consultation, even if DCC were not proposing any change, so that stakeholders could provide views.

1.81.   Some respondents said that that the methodology should be approved by the REC Panel rather than just by the DCC. One respondent noted that the Theft Risk Assessment Methodology is developed by the TRAS Service Provider and considered by industry representatives before final approval by the SPAA and DCUSA Panels.

Ofgem response

1.82.   We agree that DCC should set out its methodology and make it publicly available on an annual basis. We also agree with the respondents that, in developing this methodology, DCC should consult and take account of the views received. This is already a feature of the current drafting of the Address Management Schedule.

1.83.   We do not agree with the respondents that the REC Panel should have a role in approving the methodology. Under the proposals set out above and in the current drafting on the Address Management Schedule, DCC will be required to meet performance standards and an address management objective. We consider that these are the key areas for which the DCC should be held to account and it should have flexibility to deviate from the methodology if it considers that this will better meet its requirements. To promote transparency, DCC will be required to report to PAB on its performance, including on how it has complied with its published methodology.

1.84.   We have amended the Address Management Schedule, consulted on in June, to meet this policy objective.

Question 4.6: 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 of the June Consultation) do you prefer?

1.85.   Twenty respondents supported creating an Enquiry Service Schedule in the REC that would contain details of the service description, process for gaining access to ECOES and DES, details of data items available to users and audit/monitoring requirements.

1.86.   One respondent opposed this view and said that this should wait until REC v3 when the obligations to deliver ECOES and DES might move to REC.

1.87.   There were mixed views on whether the Schedule should also provide a single source of requirements relating to the access and use of the switching data held in ECOES and DES. These were presented as a series of options in the June consultation (see paragraph 4.32 of that document).

1.88.   Four respondents supported Option 1 to move all MRA, SPAA and UNC governance to REC. Views expressed included that this was more efficient in terms of cost and change control, that it promoted future rationalisation of gas and electricity enquiry services which would also improve efficiency for users. One respondent said that this would simplify the landscape for new entrants and innovators.

1.89.   In relation to the potential concerns that DES provides services to shippers who are not parties to the REC, one respondent noted that there were other examples of code governance managing access to data items that are mastered elsewhere. One respondent said shipper requirements could be managed through contractual obligations with suppliers.

1.90.   One respondent stressed the potential for Enquiry Services and said that the REC would seem to be the logical home for an open data framework and that its early development could be transformational in reducing costs to industry and providing innovative services for consumers, similar to that recently introduced in the banking sector.

1.91.   Four respondents supported Option 2 which would move ECOES governance and the switching part of DES governance to the REC. Those in favour of this option said this option provides the right level of differentiation between data which is relating to switching, and to data that is not. It was also said that this option is favoured as it promotes consistency between gas and electric for switching related DES items.

1.92.   However, respondents who were not in support of Option 2 said that it would create more complex governance arrangements through splitting data access governance between the UNC and the REC. It was also argued that Option 2 (as well as Option 3) would not meet the objective of the REC and the aims of the Switching Programme to simplify the code landscape for new entrants and to bring fragmented processes and arrangements into a single governance space.

1.93.   Eleven respondents support Option 3 under which only ECOES governance would move to the REC. DES governance would be retained under the UNC and SPAA. Those in favour argued that this option allows the UNC to remain intact and does not result in irrelevant DES data items being included in the REC. Respondents said that a single source of reference would assist parties in understanding the requirements, and that this option is the most mindful of prevailing arrangements. It was also argued that as well as requiring the least change effort to implement, Option 3 would also be more time, and cost, effective when developing the REC.

Ofgem response

1.94.   Access to enquiry services is vital for the efficient functioning of the market, including promoting reliable and fast switching, reducing cost and supporting innovation.

1.95.   Changes to the framework for delivering gas and electricity enquiry services are not being progressed directly through the Switching Programme. However, we are working with industry to develop new and improved ways that industry can get the data that it needs to meet consumers' requirements. In particular, we are supporting the work of the Joint MIS Development Group which is making strong progress on providing suppliers and TPIs with API access to the data held on ECOES and DES.

1.96.   Our view is that parties that rely on data to meet consumers' requirements as well as their own licence and code obligations should have appropriate access to that data. We also think that the parties that need access to data should have appropriate rights to influence what data they can access and the mechanism through which that access is achieved.

1.97.   We are attracted to proposals that include governance of the enquiry services that support switching in REC v2.0. We note the concerns around the governance of non-switching elements of DES moving to the REC. In this context, we want to ensure that there is a governance model that satisfies all parties' reasonable responsibilities around data ownership, processing and access, including those that are not parties to the REC. We propose to explore further with industry how such a data access model could work across multiple codes before making a final decision.

Question 4.7: 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 of the June Consultation?

And

Question 4.8: Do you agree that the grey areas highlighted in Figure 3 of the June Consultation should be out of scope of an Exceptions Schedule for REC v2?

1.98.   There was strong support from the majority of respondent to create an Exceptions Schedule in REC v2.0 in line with the scope set out in the June Consultation.

1.99.   There was also strong support for this to be written in a consumer focused way. One respondent cautioned that sufficient detail must be included as new entrants must be clear what is required of them.

1.100. One respondent said that the opportunity should be taken to refresh the requirements and write with "to be" market in mind so that they are ready for the deployment of smart metering and Half Hourly Settlement.

1.101. One respondent disagreed with our proposals to include an Exceptions Schedule in REC v2. It considered that it should be included in REC v3 as the broad content was unlikely to change. It argued that this should be seen in the context of the wider consolidation of the MRA and SPAA into the REC.

1.102. One respondent noted that the current MRA Disputed Reads procedure contained obligations on electricity NHHDCs and asked if the supplier hub principle would be extended to the REC pending the outcome of Ofgem's 'Future of supply market arrangements initiative'.

1.103. The majority of respondents supported the proposals set out in June for inclusion in an Exceptions Schedule.

1.104. Eight respondents suggested additional areas that they considered should be included:

- Retrospective changes in electricity
- Debt Assignment Protocol
- Including all PPM exception arrangements (including these for smart meters)
- Address query resolution
- Electricity crossed meter resolution (note that the June consultation only proposed inclusion for gas)

1.105. One respondent suggested that all exceptions should be included in REC V2 as only minor changes were expected.

1.106. One respondent suggested a full review of the content so that it would be fit for the future.

Ofgem response

1.107. We note the strong support for our proposals to include an Exceptions Schedule in REC v2.

1.108. As described in Chapter 5 we are reconsidering our approach to how these requirements should be framed in the REC. This is an important area to get right as it sets out provisions that have a direct impact on consumers that have experienced a problem in the retail energy market.

1.109. Chapter 5 asks for views on two models for how an Exceptions Schedule could be framed. So as not to jeopardise delivery of the wider Switching Programme benefits, we are aligning the debate on how to frame exceptions to REC v3.0. If we make strong progress, we will move this back to REC v2.0. For REC v2.0, we therefore propose to retain each exception area as a standalone Schedule.

1.110. In relation to the comments on the proposed content:

Proposed additional content for Exemption Schedule in REC v2	Ofgem view
Retrospective changes in electricity	The ability of the CSS to accept retrospective changes is not accommodated within the current CSS design. We will consider the merits of retaining any current functionality for retrospectively amending data elements that are mastered in MPAS systems and which do not impact on the data held by CSS. We welcome views on this approach. If a requirement is identified for retrospective adjustment in the CSS, then parties can raise a DB4 Change Request.
Debt Assignment Protocol	As described in Chapter 4, we now propose to include the Debt Assignment Protocol as a Schedule within REC v2.0. We are consulting on the draft Schedule as part of this wider consultation.
Including all PPM exception arrangements (including these for smart meters)	As noted above in our response to Q4.1, our current view is that all prepayment issues should be included in a single Schedule and be provided as part of REC v2.0. This is discussed further in Chapter 4.
Address query resolution	The draft REC Address Management Schedule places obligations on parties to flag instances where the address held by the network is incorrect under the current procedures set out in the UNC and MRA. We will consider if such UNC and MRA procedures should move to the REC as part of REC v3.0.

Electricity crossed meter resolution (note that the June consultation only proposed inclusion for gas)	Processes for resolving electricity crossed meters are set out in Working Practice 145. This is a voluntary process. We will write to the MRA Executive Committee to ask it for views on whether a mandatory procedure for resolving crossed meters should be developed for the Electricity Market and if so, should it be developed now? This will inform our view on whether there is a requirement to include such arrangements in the REC.

1.111. In relation to the comment on placing obligations on electricity NHHDCs, we are looking to reposition obligations around the submission of meter reads into settlement into the UNC and BSC which have responsibility for settlement. In developing the REC, we will be mindful of any output from the Ofgem's 'Future of Supply Market Arrangements' initiative.

Question 4.9: A list of suggested content for a set of REC Technical Documents can be found in paragraph 4.44 of the June Consultation. Do you believe that any of the content listed is unnecessary or is there any content that you would expect to be included?

1.112. There was strong support for the four proposed REC Technical Schedules and their content. Of those that responded, twelve agreed fully with our proposals and did not suggest any additional content.

1.113. Respondents proposed the following additional content:

- A Service Description and management document for Enquiry Services
- Complementary Enquiry Services Technical Specifications and a Data Flow Catalogue.
- A CSS Requirements Specification (including ABACUS business process models and also including the CSS Interface Specification)

1.114. One respondent requested a clear index to help them navigate the Technical Documents. It noted that navigation was problematic with technical SEC documentation.

1.115. One respondent raised a query regarding whether the documents will be subject to the full REC modification process or whether they will be classed as REC subsidiary documents.

1.116. Some respondents note that additional content could be identified at a later stage.

Ofgem response

1.117. REC Technical Documents will be required to provide information to REC parties about the specification of the CSS system and also set out how Parties should fulfil their obligations to interact with the CSS and each other.

1.118. We welcome the support received for the four REC Technical Schedules and their content which we described in the June Consultation (and are replicated below for ease of reference):

- **A CSS Service Description Document**: availability, processing, reporting and performance standards and response timelines of the service including the Switching Network. It should also define details of the testing environment and enquiry service/phone line.

- **A CSS Service Management Document**: release management, planned and unplanned outage management, contingency arrangements and error resolution processes and responsibilities for CSS issues.
- **A CSS Interface Document**: the CSS Data Model, Data Catalogue, interfaces, validation rules, response principles, rejection responses including any codes and technical and communication standards.
- **A CSS Security Document**: the security standards and protocols applicable to the CSS, including provision of user accounts, procedures around unauthorised access, audit trail requirements and virus protection.

1.119. We propose to further develop our thinking on the structure, contents and drafting responsibilities of the Technical Documents over the coming months. We will also consider how each document should be governed. We will test our thinking with stakeholders through Switching Programme governance.

1.120. One particular area where we are giving further consideration is on the technical requirements that do not have a direct link to the CSS. For example, the data flows between suppliers that support the resolution of exception areas such as erroneous switches and disputed switch reads. We think that there are benefits for users in setting out requirements for the exchange of data under the REC in a single place. Further discussion the potential for the REC to include an industry wide gas and electricity data catalogue is set out in Chapter 6.

1.121. While the documents described above are badged as "Technical", they need to be drafted with users in mind. We are therefore looking for them to be consistent with the Regulatory Design Principles set out in Chapter 5.

1.122. Our views on respondents' proposals are set out in the table below:

Proposed changes to REC v2.0 Technical Documents	Ofgem view
Service Description and Management document for Enquiry Services	We agree that DES and ECOES should have in place effective Service Description and Management documentation. As noted in our response to Q4.6 above, we are giving further thought to how enquiry service requirements should be reflected in the REC. We will include this issue as part of this wider consideration.
Complementary Enquiry Services Technical Specifications and a Data Flow Catalogue	See response above
A CSS Requirements Specification including Business Process Models (Abacus Extract) and a CSS Interface document	In June we said that the CSS Interface Specification should sit in the CSS Interface Document and that the Business Process Models (Abacus Extract) would be included as a subsidiary. We continue to consider that the business process models should be maintained as subsidiary documents as this might lend itself to lighter change control governance. As noted above, will be giving further thought to the structure, content, governance and drafting ownership of the Technical Documents over the coming months.

Question 4.10: Do you believe that Table 1 of the June Consultation captures all of the items that should become a REC subsidiary document?

1.123. The majority of respondents (12) believed that the proposals in the June Consultation successfully captures all of the items that should become a REC subsidiary document.

1.124. Seven respondents did not believe that we had successfully captured all of the required documents, with five respondents suggesting additional items and two respondents calling for the removal of a selection of documents.

1.125. Respondents proposed the following additional REC Subsidiary documents:

- Business Continuity Plan;
- REC Code Manager Procurement document;
- Credit Policy;
- Operational Risk Management Procedures and Register;
- Operational Reporting Standards including pro-forma reports;
- Training materials;
- Incident Management Policy;
- Release Management Policy; and
- Operational documents such as ECOES, DES and MIS accession agreements, REC Modification and Change Report templates, derogation request forms, breach / non-compliance report forms.

1.126. One respondent called for the creation of appropriate financial management and planning documents which should be subject to the formal change control procedures.

1.127. One respondent stated that whilst the RECCo Articles of Association, REC Framework Agreement, the REC Accession Agreement and the Escrow Procedure should all become REC subsidiary documents, they do not believe than any of the other documents should be subsidiary Schedules since most are transitional documents.

1.128. However, one respondent said that the RECCo Articles of Association should not be a REC subsidiary document.

Ofgem response

1.129. We are proposing that the REC has a number of subsidiary products. These are in addition to the REC governance, operational Schedules and technical document areas.

1.130. The REC subsidiary documents are varied in nature and the governance of these products (including the process for maintaining these) needs to be given further thought as they may not automatically sit under the governance that applies to other areas of the REC.

1.131. We propose to develop our thinking further over the coming months on any changes to the list of REC subsidiary documents that we published in June. We will test this with stakeholders through Switching Programme governance.

1.132. We do not yet have answers on all of the proposed new subsidiary REC products. However, we have shared our current thinking and observations on some of the suggestions below:

- Business Continuity Plan - The Service Management Schedule, published in draft for consultation alongside this document, includes requirement for the Switching Operator (DCC) to develop a Business Continuity Plan. A separate REC subsidiary document may therefore not be required.

- REC Manager Procurement document - We agree that there is value in including this as a REC Subsidiary document. We note that it could be used by the RECCo Board for any future re-procurement.

- Credit Policy - We agree that there will be a need for appropriate credit arrangements in v2.0 of the REC, at which time the RECCo will become liable for payment of charges

from the CSS. However, we do not consider it appropriate to prescribe what those credit arrangements may look like at this time, as we do not yet know what the scale or methodology for recovering those charges will be. We also recognise that the costs of providing credit cover can fall disproportionately upon smaller parties and new entrants and are therefore keen to ensure that an appropriate balance it struck between protecting the RECCo (and its funding Parties) and keeping the cost of this security to a minimum. We have therefore proposed that the action to develop an appropriate credit cover policy be undertaken by the RECCo Board when more is known about the nature of its risk, though we will be happy to assist it.

- Operational Risk Management Procedures and Register – As described in chapter 4, we expect the PAB to establish and maintain a risk register and performance assurance methodology. We will consider the status of the register and its transparency as part of the wider discussion on role of the PAB.

- Incident Management Policy – The Service Management Schedule sets our requirements on incident management. We welcome views on whether there remains a requirement for an additional subsidiary REC document in this context.

Question 4.11: Do you believe we have assigned the correct responsibility for producing each REC subsidiary document?

1.133. Of those that responded, a high majority (17) believe that we have assigned the correct responsibilities for producing each REC subsidiary document.

1.134. There were comments on responsibility for producing the 'Outstanding Issues' document. Some parties questioned why DCC was responsible for producing it and suggested that they should not be required to maintain it. It was suggested that responsibility should sit with the Switching Programme and/or REC Panel.

1.135. One respondent said that the responsibilities for producing each REC subsidiary document has been assigned correctly, but, thought needs to be given to ownership of the documents.

1.136. One respondent stated that that Switching Programme should have the ultimate responsibility for producing the documents, initially drafted by the DCC. One other respondent said that the REC Panel should be responsible for maintaining them once they had been produced.

1.137. One respondent suggested that the documents were developed with appropriate stakeholder engagement.

Ofgem response

1.138. We welcome the useful feedback on the responsibilities for producing the REC subsidiary documents. As noted in our response to Q4.10, we propose to develop our thinking further over the coming months on any changes to our published list of REC subsidiary documents. As part of this review, we will consider who should be responsible for producing each document, what stakeholder engagement is required to support their development, who will approve each document and how they will be maintained through into live operation.

Chapter 5: The DCC licence

Question 5.1: Do you agree with the role we have set out for DCC during the DBT phase and steady state operations? If not, why not?

1.139. The majority of those that responded (13) fully agreed with the role that has been set out for DCC. Five respondents, whilst agreeing with the proposed role, raised concerns and/or suggested additions to the role set out. Four respondents questioned if DCC was the best placed entity to fulfil the proposed role set out.

1.140. Those that agreed highlighted the support with accountability, and providing stability, as the reasons why they agreed with the role set out for DCC.

1.141. Four respondents agreed with the role, but raised concerns on DCC's reliability and performance.

1.142. One respondent recommended that Ofgem consider allowing the REC Panel and RECCo board to interact directly with the CSS in order to achieve the aspirations of the outlined roles.

1.143. One respondent disagreed with the role set out since they have concerns regarding the risk to other programmes if DCC are given these roles set out. One other respondent whilst agreeing that DCC are best placed with the role set out, raised concerns that giving DCC additional roles could create a risk to other programmes, including the smart metering programmes.

1.144. One respondent who agreed with the role set out suggested the following amendment to the role. Changing: "Delivery and provision of an economic, efficient robust and secure switching service", to: "On-time delivery and provision of an economic, efficient, robust, secure, compliant and complete switching service".

Ofgem response

1.145. We have taken on-board all comments received and appreciate the strong support for the role set out. We set out our rationale and decision to extend DCC's role into DBT in our DB2 consultation and decision and still believe DCC to be the best placed body to manage the CSS during DBT and early years of operations. It remains open to consideration as to what would the most appropriate vehicle to manage the CSS at the end of DCC's current licence term (September 2025). Consideration of this will take place well in advance of this date to allow for a smooth and structured transition, if required, ahead of September 2025.

1.146. Additional wording has been added to the General Objective in LC 15 to set out timely delivery. This reflects the existing wording in the Transitional Objective. We have also added wording to require DCC to take into consideration the cost to, and impact on, the end consumer whilst fulfilling its obligations.

1.147. DCC have published their updated Business Case based on DB4[26]. This updated business case now reflects their preparatory work for DBT. DCC are currently planning for the DBT phase and mapping the resources and capability required. DCC are committed to separating and safeguarding resource between Smart and Switching and is obligated under its licence to be appropriately and adequately resourced to meet all its obligations. This will be set out further in DCC's business for the DBT phase which it is currently developing and on which it will consult with industry later this year.

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[26] https://www.smartdcc.co.uk/media/465377/schedule_of_changes_-_switching_internal_business_case__002_.pdf

Question 5.2: Do you believe that our proposed drafting to amend LC 15 of DCC's licence would, if implemented, accurately reflect our expressed intentions? If not, why not?

1.148. Of those that responded, a majority believe that the proposed drafting accurately reflects our expressed intentions. Fifteen respondents agreed with the proposed drafting. Those that agreed did so based on high levels of clarity and sufficient flexibility with the amended licence.

1.149. In total, five respondents suggested further amendments to LC 15 of DCC's licence in order to accurately reflect our expressed intentions. These amendments vary from minor wording changes, to additional requirements, and legal definitions.

1.150. A suggestion was raised that the legal drafting should be further reviewed for assurance that it meets Ofgem's intentions. One respondent called for additional clauses. The respondent also called for a requirement in part B to specifically provide all reasonable support for the transfer of any obligations to a new party.

1.151. One respondent asked for an amended definition of the CRS during the DBT phase in order to reflect the requirements of the CRS that have been identified by the Switching Programme.

1.152. Only one respondent disagreed with the proposed drafting on the basis that the FRSC definition should be wider. The respondent suggested that the definition should say that FRSC must be competitively procured and could not be supplied by DCC or its affiliates.

1.153. Another respondent also raised concerns with the FRSC definition and argued that the legal text of the FRSC does not provide sufficient clarity regarding the stated policy intent. They proposed that the definition of the FRSC should refer to specific requirements or contracts in a similar way to how Fundamental Service Capability (FSC) refers to specific contracts under the Smart Metering Implementation Programme.

Ofgem response

1.154. We have taken on board the comments received and made the appropriate modifications to LC 15 (and throughout the licence).

1.155. The definition of CRS has been amended to more clearly set out DCC's role and the relationship between the CRS and CSS terms. Additional wording to ensure DCC fulfils its obligations in relation to LC 15 in an economic and efficient manner has been added – this includes the delivery and upkeep of the Centralised Registration Service.

1.156. The drafting of the licence of the LC15 amendments and the consequential changes have been further reviewed and this is reflected in the list of changes shown in Appendix 2.

1.157. The definition for FRSC has been updated and now references specific services – the registration and address services. FRSC is already defined in the licence as "Relevant Service Capability that is provided in respect of the Centralised Registration Service and procured by the Licensee in accordance with Condition 16". This means that is subject to the same conditions as FSC - in the same way as FSC and therefore requires full competitive procurement process will be conducted. FRSC and FSC differ from Relevant Service Capability (RSC) in so far as RSC "may be provided by the Licensee from its own resources, or procured from an Affiliate or related undertaking".

1.158. We have added text to LC 21 to obligate DCC to become a part to the REC. We have also extended the Duty to Co-operate on to DCC and this obligation is included in LC 21.

Question 5.3: 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?

1.159. Of those that responded, all agreed with the addition of new CRS specific price control terms. The main argument from respondents in favour of the addition of new CRS specific price control terms is that it will provide greater transparency in the setting out of costs. It was also argued that the new price controls will protect interests of both the industry and consumers.

1.160. One respondent disagreed with the proposal for DCC to recover development and procurements costs of the CRS through the existing SEC charging methodology as this would unfairly increase charges on DNOs. Two further respondents felt this should be re-considered.

1.161. One respondent called for a tighter definition of specific justification since the current proposal to add a value added service contribution (CRSVASC) is too open ended.

1.162. Suggestions were made that the proposals should be subject to REC approval and in addition the price control terms should be reviewed annually and/or include a penalty based approach.

Ofgem response

1.163. We have included text in all the CRS price control terms to include consultation with the REC and REC Parties. Specific justification required for CRSVASC shall be agreed in the Reporting Instructions and Guidelines. Any VASC will only be awarded following consultation with all relevant parties including the REC.

1.164. We intend to include an updated charging methodology within REC v2.0 which will apply for switching costs. Given the short time period until the REC v2.0 is active we believe it is proportionate to utilise the existing charging methodology within the SEC.

1.165. Under the current funding arrangements, the costs associated with the development, documentation and procurement of the CRS are being met by users of the DCC Services through monthly fixed charges. The methodology for determining these charges are set out as fixed costs within Section K (Charging Methodology)[27] of the SEC. If any SEC Party feels this is not a fair or proportionate application over this period, they are able to raise a modification request to the SEC. The Charging Methodology is subject to modification in accordance with SEC Section D (Modification Process) with reference to the Charging Objectives set out in Section C (Governance).

Question 5.4: 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?

1.166. The majority of respondents agreed with the high-level programme outcomes that we believe should be incentivised. Of those that responded, 15 agreed, with one more respondent agreeing in principle subject to the inclusion of a suggested provision, whilst two respondents did not agree. In total, nine respondents offered suggestions for aspects that should be prioritised.

1.167. The main reasons for agreement given by those that supported the outcomes were:

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[27] https://smartenergycodecompany.co.uk/the-smart-energy-code-2/

- Ensuring regular, open and clear communication and engagement with all stakeholders;
- The incentives will be critical in delivering a successful programme on time; and
- Will help provide a reliable delivery of an appropriate and accessible service in a cost efficient manner.

1.168. One respondent that disagreed felt that the outcomes should focus more on the delivery of benefits to customers.

1.169. The key areas that respondents felt should be prioritised is listed below:

- Timely and quality delivery with economic and efficient delivery;
- Switching reliability, with focus on reliable systems, through improved data accuracy;
- Adaptability and stakeholder engagements should be seen as a priority in the programme;
- Improving consumers experience of switching as a high level programme outcome;
- Inclusion of a feedback loop whereby stakeholder satisfaction is surveyed. This may also include a consumer feedback loop; and
- Incentivising effective incident management.

1.170. Respondents called for incentives to be kept under review, and be revised, as the programme progresses. It was also suggested that when incentivising the DCC, lessons need to be learned from the Smart Metering Programme.

1.171. One respondent suggested that there should be similar incentives in post-implementation and steady state operation to ensure high quality and cost effective service is continually delivered following implementation.

1.172. It was stated by numerous respondents that the high level outcomes need to be baselined and measureable. One respondent also raised a concern that there appears to be a greater focus on positive incentives rather than dis-incentives and that this should be taken into consideration.

Ofgem response

1.173. We have taken on board all responses to this question and have used them to develop the proposals we are consulting on in this document.

1.174. As DCC is operating under ex post price control we believe it is most appropriate for the performance incentives to be based around penalties. Our proposal is for a series of penalties where delivery of key milestones is not completed on time to the required quality. This includes a recovery mechanism that is linked to stakeholder engagement and transparency. This would utilise feedback from the ongoing stakeholder surveys and would be assessed against whether DCC has been open as early as possible about any potential delays and used this to minimise impact on other stakeholders.

1.175. We have taken on board lessons from Smart Metering. This includes ensuring a balance between timely and quality delivery for milestones and the use of clear, robust and objective gate criteria. We also propose to assess aspects of quality in relation to the number and scale of incidents that arise in subsequent phases.

1.176. Improving consumer experience is a key aim of the programme and will be a factor in defining success. However, we do not believe at this phase of the programme it is appropriate to incentivise DCC against this this is because there should be no consumer impact during DBT. DCC is not expected to have a direct interaction with consumers as the provider of the switching service and the consumer experience can be impacted by a wide range of parties

and for different reasons. This is hard to measure and not within DCC's control. However, there will be measures placed indirectly on DCC as a party to the REC.

1.177. We are consulting here on incentives for the DBT period. We agree with those respondents that felt that the incentives should be reviewed ahead of post-implementation and enduring operations. We propose to develop these regimes as the programme develops and we gain a better understanding of appropriate incentives. We will consult with programme stakeholders on these in due course. This is likely to include incentives / penalties in relation to incident management.

Chapter 6: The SCR process

Question 6.1: Do you agree with the changes that we propose to make to the scope of the Switching SCR?

1.178. All of those that responded specifically on this point agreed with the changes proposed, though a small number suggested further changes, relating to:

- Bringing the DCC's delivery of the Smart Meter Programme inside of scope of this SCR, due to concerns with their ability to manage the CSS provider through and beyond the DBT phase; and,
- Changing the reference of MPRS to MPAS, on the basis that MPAS is the name of the service that DNOs are obligated to provide under the MRA, whereas MPRS is the commercial name for the product.

1.179. Respondents also asked for further clarity on regarding points removed from the 'Out of Scope' section and for Ofgem to consult on the specific details of the changes with stakeholders.

Ofgem response

1.180. Whilst we recognise that documents such as the SCR launch statement and associated scope should be adhered to as far as practicable in order to maintain regulatory certainty, there is an obvious trade-off with the need to respond to changing circumstances and evolved thinking. We therefore welcome the support for our proposal to modify the scope of the SCR and the flexibility this provides.

1.181. We do not agree that the Smart Meter programme should be brought within scope of the switching programme SCR, but do recognise the need to ensure that both programme operate effectively alongside each other, and in particular that the DCC is able to discharge its obligations under both, in an effective and timely manner. That is an issue we are actively monitoring as part of the switching programme, but does not require inclusion with the scope of the SCR itself, as those powers relate solely to the modification of relevant Industry Codes, not operational matter.

1.182. We agree with the suggested change of MPRS and MPAS.

Question 6.2: 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?

1.183. Six respondents asked for further changes where items should be brought into the scope. No respondent asked for any items to explicitly be ruled out of scope. A summary of changes suggested is below:

- Programme funding and responsibilities including how funding is dealt with for the establishment of the CSS, changes once the CSS has gone live, and changes as a result of the CSS going live.

- Inclusion of an obligation on the DCC to implement the CSS within the set timescales and inclusion of DCC's delivery of the Smart Meter Programme.
- Amending the current scope from stating "to deliver next day switching" to "deliver faster, reliable switching" in order to apply to the non-domestic sector.
- References to a Market Intelligence Service (MIS) that can be provided by a range of data sources and to the creation of the new REC.

1.184. Two respondents also sought further clarification on issues including whether code governance remedies are out of the scope of the SCR, and whether transmission connected customers will be excluded, or not.

Ofgem response

1.185. Programme funding is itself outside of the scope of the SCR as that is dealt with under the current terms of the DCC licence, as set out in Chapter 6 of this document. However, upon cutover to the CSS live operation, DCC will cease to be funded through the charging methodology set out in the SEC and will instead issue invoices to the RECCo. The RECCo will in turn recover its costs through a charging methodology to be set out in the REC. To this extent, the CSS charges will be subject to change progressed through the SCR. We will make this clearer within the SCR scope.

1.186. As set out above in relation to responses on Q6.1, the obligations upon the DCC to deliver both the switching programme and Smart Meter Programme are a current feature of its licence and do not need to be given effect through future SCR modifications.

1.187. We agree that referring to the outcome of the SCR modifications as being "to deliver faster, reliable switching" would be a more accurate reflection of the effect of the changes being made at that time. The anticipated subsequent improvement to deliver next day switching would not be given effect through this current SCR.

1.188. We remain of the view that a Market Intelligence Service (MIS) can and should be progressed and capable of being implemented without out the need for and in advance of the switching programme SCR. Unless and until it becomes impracticable to deliver a MIS otherwise than through the switching programme, we consider that it should remain out of scope. However, we consider that reference to the MIS by the REC, if not the governance of it, is a likely outcome of the winding down of the MRA and SPAA and consolidation of retail provisions into the REC.

Question 6.3: 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?

1.189. Of those that responded, a majority (21) supported the proposed approach. Only one respondent was clearly against the approach. Those that agreed did so on the basis that it would provide all required information, increase clarity and will allow time for participants to fully understand the changes proposed. Some stipulated certain conditions should also be met, which we do not detail here but on the whole we considered to be sensible risk mitigations.

1.190. Two respondents, including the one that was clearly opposed to the proposal, considered that contractual obligations should be established and put into various industry agreements before the systems are designed to deliver them. Concerns were also raised that a late submission of the proposals could lead to a higher degree of change than initially required.
Ofgem response

1.191. We acknowledge that programme of this nature would traditional follow a more sequential process, with changes either being instigated by industry parties, or imposed upon them by policy makers and codified ahead of detailed DBT commencing. However, that approach has also been found wanting and led to significant implementation problems and delays. The switching programme has taken a different path from the outset, not least with Ofgem undertaking a programme sponsorship role from beginning to end. We also set out to complete the E2E design in advance of and to inform the detailed regulatory requirements, rather than vice versa. However, we also appreciate that industry parties require a high degree of certainty before making significant investments in systems. Our initial focus has been on establishing the funding and governance for the CSS, which has been achieved through modifications to the DCC licence and associated price control. We are developing the REC and SCR drafting and seeking to baseline it at the earliest opportunity in order that we can also provide a high degree of certainty to other market participants, particularly those who will interact with the new CSS. In maintaining this drafting under programme governance outside of the live industry codes, we aim to retain a greater degree of flexibility and thereby avoid some of the problems that have been encountered in previous programme, where detailed design and testing highlighted issues and errors in the original business rules and/or effective code text which could not be readily modified.

Appendix 2 – Table of DCC Licence modifications

Table 6: List of DCC licence modifications

Chapter	Para Ref	Description
Part 2	Introduction: 1,2 and 2A	Making clear that partial revocation of just the CRS obligations of the licence is possible
Part 3	Conditions of this licence	Update title for condition 15 in contents
Chapter 1	Part A: Definitions arranged in alphabetical order	Various updates to terms (existing and new): • include REC definition; • update to FRSC (defining the contracts) • adding REC references (where appropriate) • correcting the reference to LC 15 for CRS; and • Mandatory Business Services.
Chapter 2	2.24	REC reference
	5.9	REC reference
	6.5	REC reference
	6.5d	Update reference to LC 15
	6.9	Clarifies that VAS applies to CRS VAS
	6.16	REC references
	8.2	addition of and / or REC
	8.7d	addition of and / or REC
	8.12	Linking to direction to cease activities in LC15
Chapter 3	9.1 and 9.11	Addition of REC Parties
	10.5b	REC reference
	11.5, 11,.6, 11.8, 11.9	REC reference
	11.10. 11.12a	Clarifies application to FRSC
	12.4	Reference to REC parties
	14.6	Reference to REC parties
	14.7b	REC reference
Chapter 4	All of LC 15	Significant changes to reflect extension of DCC's role.
	16.2	REC and FRSC references
	16.12	Linking to direction to cease activities in LC15
	16.8, 16.29	REC reference
	17.1	REC Parties
	17.25	CRS VASC
	17.2, 17.31, 17.32 a&b	REC reference
	17.28	REC as relevant
	18.1	Update wording on Charging Methodology – allowing for the methodology to swap from being defined in the REC rather than the SEC for Switching activities (LC15) following once this has been designated.
	18.3	REC reference
	19.1	REC Parties

|		
Chapter 6	20.6, 20.7b	REC reference
	21.6, 21.7	REC reference
	21.13, 21.16	New Part F & G - party to the REC and duty to co-operate
	22.21	Updated reference to LC 15
	24.1, 24.2 25.1	REC reference
	25.1, 25.3	REC reference
Chapter 7	26.8	Linking to direction to cease activities in LC15
	30.17	Update ref to LC 15 -preparation, delivery and provision for the Centralised Registration Service
Chapter 8	35 Part B	Updating definitions
	35 part D	Updating initialisms
	36.9, 36.10	Updating CRS revenue calculation
	36.19	Addition of 'as appropriate' for CRS costs reflect potential shift from SEC charging arrangements
Chapter 9	39.2 and 40.2	Reference to the CRS revenue term
	43	• Various across condition to link with the Authorities ability to direct DCC to cease /transfer all activities in LC15; and References to the REC
	44.1, 44.3	• REC reference
	44.5	Linking to direction to cease activities in LC15
Schedule 5	Annex 11	Update ref to condition 15

Appendix 3 – DBT milestones

Incentivised Milestones

Table 7: DBT incentivised milestones

#	Name	Description	Components
1	**DBT Readiness**	At this point the SI Provider will have worked with the CSS and existing service providers and finalised the DBT plan as well as published the interface specification for CSS components as well as proposed updates to the CSS and E2E Delivery Products to align with the revised Core Systems and Services Integration Approach and Plan. This milestone gives certainty to the industry parties to commence their DBT activities.	External CSS Interfaces Published
2	**PIT Exit**	The components of CSS (Address, Registration & Service Management) system have been designed, built and undergone Pre-Integration Testing of the System and Service aspects covering all functional and non-functional requirements including security and service management aspects.	Completion of Registration design, build and & PIT / Completion of Address design, build and & PIT / Completion of Service Management design, build and & PIT
3	**SI Readiness for SIT**	The planning and preparation activities for SIT, the development and agreement of the SIT Plan. Prepare and put in place all elements of the SIT Plan that are the responsibility of the SI and are required to meet the SIT entry criteria. Meet any other SIT entry criteria that are within the responsibility of the CSS provider(s) to meet.	SI Readiness for SIT
4	**E2E Testing Exit**	Undertake E2E Testing in accordance with the E2E Testing Plan and meet the exit criteria for this phase. This covers the Programme led E2E Testing which is the responsibility of the SI to define, manage and execute.	E2E Testing Exit
5	**Transition Stage 2 Exit**	Successful completion of Transition Stage 1 to populate the CSS registration service with data migrated from relevant parties including UK Link and all MPAS providers). Successful completion of Transition Stage 2 where the registration service creates REL address data for population of CSS. All other Transition Stage 2 exit criteria are met.	Transition Stage 2 Exit

Draft DBT milestone plan

Figure 2 shows an initial draft of the DBT milestone plan and is subject to change. It is included here to show the relationships between the DBT incentivised milestones being placed on DCC.
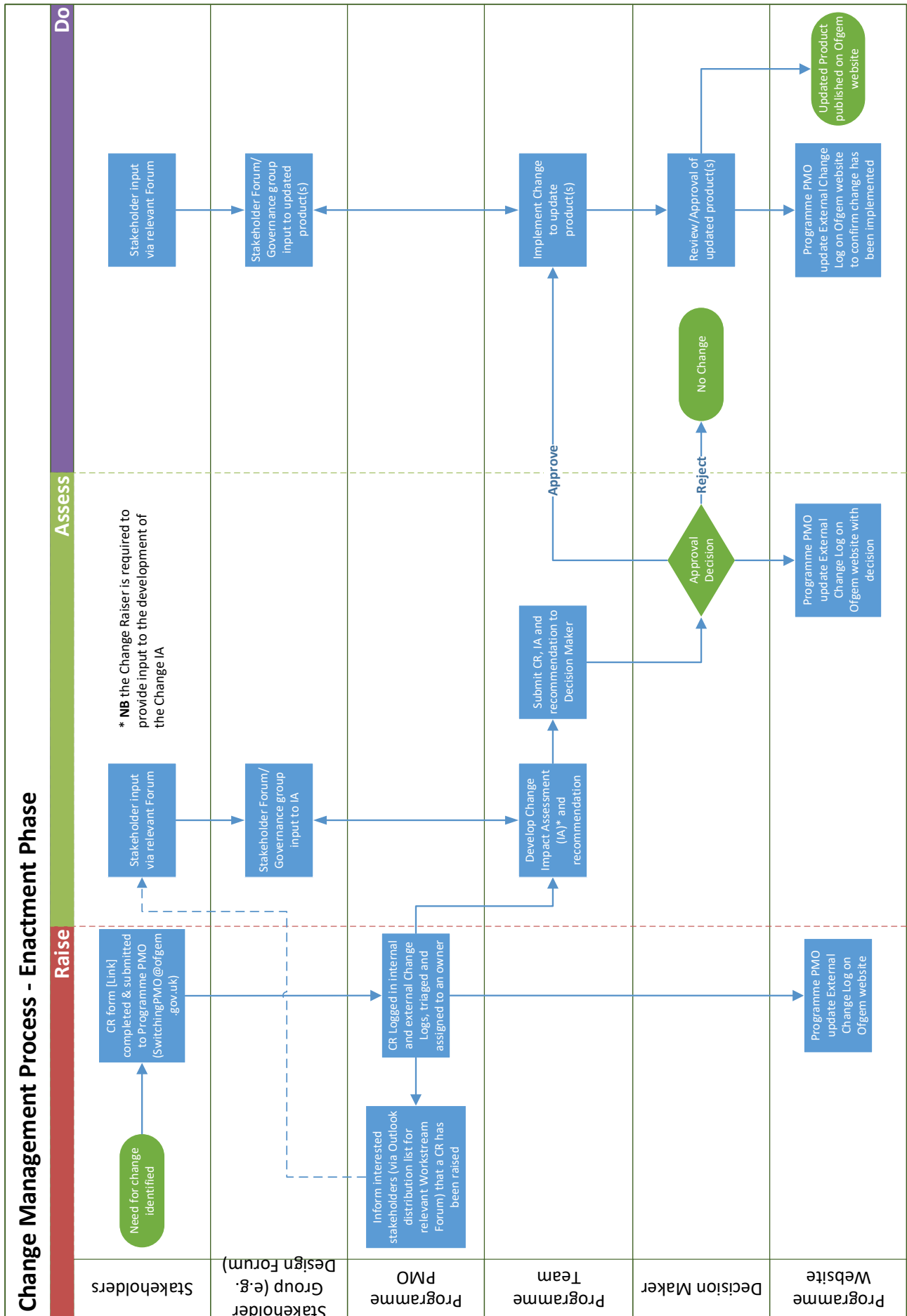
Figure 2: DBT milestone plan
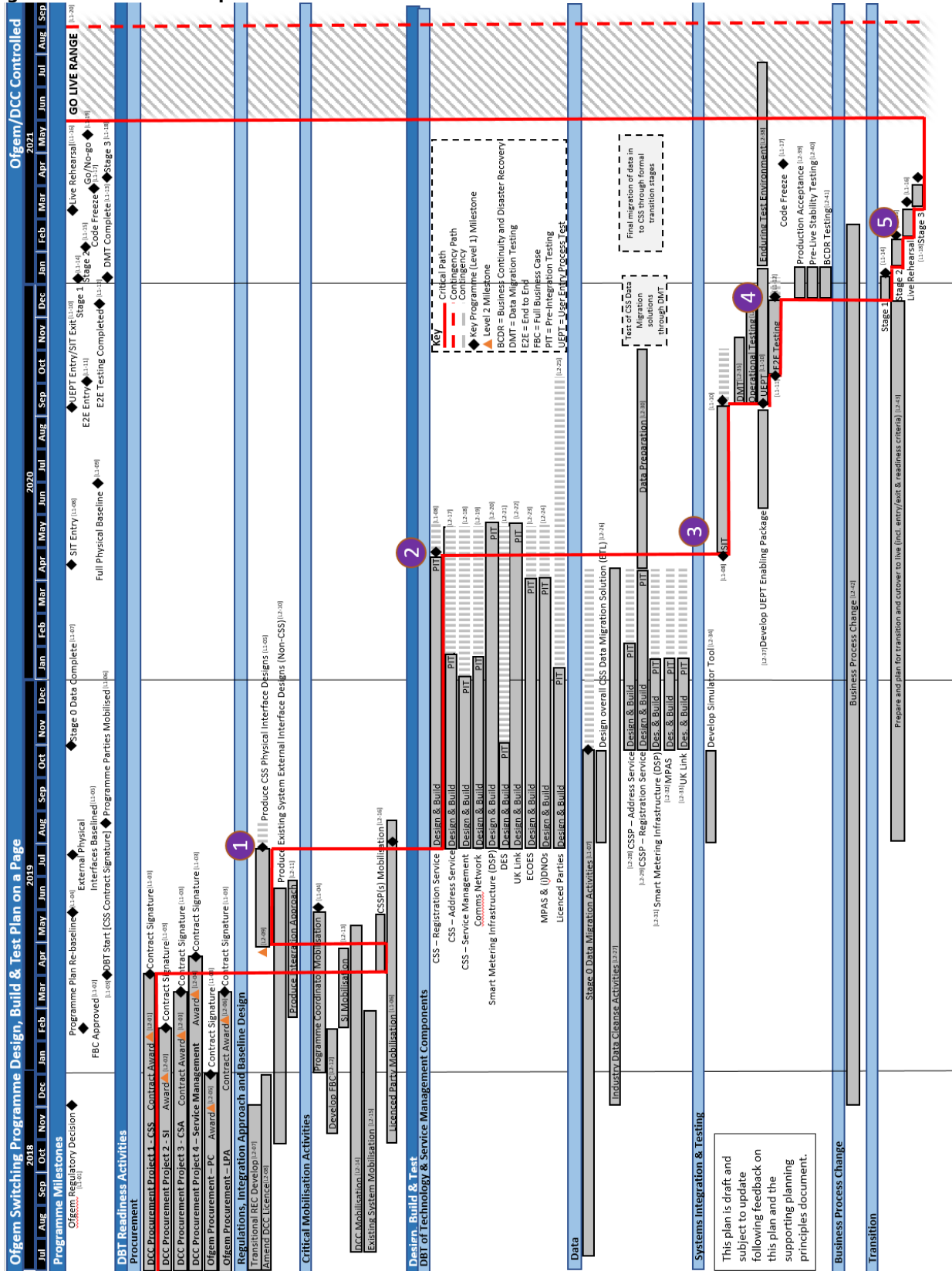
Appendix 4 – Change Management

1.1   As described in our June consultation we intend to utilise programme governance and change management processes to manage any changes that may be required to the REC in advance of REC v2.0 coming into effect at go-live.

1.2   Once REC v1.0 is designated, we would not expect to make any modifications to the Transitional Requirements Schedule itself, though the referenced documents may be revised from time to time. These documents can only be modified following a change request, approved via Switching Programme governance.

1.3   Since the publication of Design Baseline 4 (DB4), the Programme has been operating a new change management process details of which are available on the Ofgem website.[28] The process is designed to be robust and transparent and allows industry input into the both the impact assessment of change requests as well as providing advice at through representation at relevant governance groups e.g. Design Authority where the proposal impacts upon the E2E design, and/or the Regulatory Group.

1.4   The process described on the website and illustrated below has been developed specifically for the Enactment phase of the programme. Due to uncertainty about the scale of change, the process has been designed to allow a forward view of engagement via the "change window" approach, whereby stakeholders have visibility as to when input into the process will be required. It is anticipated that the process will be evolved further for managing change, especially design change during the Design, Build and Test phase, but the principles of open engagement with stakeholders will remain.

1.5   As with REC v1.0 referenced documents, once the REC v2.0 Schedules and REC Technical Documents are baselined they will become subject to the programme change management processes described above until such time as enduring REC governance and change processes are established through the SCR and are operational.

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[28] https://www.ofgem.gov.uk/publications-and-updates/switching-programme-change-management

Change Management Process - Enactment Phase

Phase: Raise | Assess | Do

Stakeholders

- Need for change identified
- CR form [Link] completed & submitted to Programme PMO (SwitchingPMO@ofgem gov.uk)
- Stakeholder input via relevant Forum (Assess)
- Stakeholder input via relevant Forum (Do)

Stakeholder Group (e.g. Design Forum)

- Stakeholder Forum/ Governance group input to IA
- Stakeholder Forum/ Governance group input to updated product(s)

Programme PMO

- CR Logged in internal and external Change Logs, triaged and assigned to an owner
- Inform interested stakeholders (via Outlook distribution list for relevant Workstream Forum) that a CR has been raised
- Programme PMO update External Change Log on Ofgem website (Raise)
- Programme PMO update External Change Log on Ofgem website with decision (Assess)
- Programme PMO update External Change Log on Ofgem website to confirm change has been implemented (Do)

Programme Team

- Develop Change Impact Assessment (IA)* and recommendation
- Submit CR, IA and recommendation to Decision Maker
- Implement Change to update product(s)

Decision Maker

- Approval Decision
  - Approve
  - Reject → No Change
- Review/Approval of updated product(s)

Programme Website

- Updated Product published on Ofgem website

* **NB** the Change Raiser is required to provide input to the development of the Change IA

Appendix 5 – Statutory Notices and Accompanying Documents

This appendix lists and provides links to the documents that we have published alongside this consultation, consisting of:

- Statutory notices of our intention to modify licences;

- Revised versions of the REC v1.0 main body and transitional required Schedule, to be designated when licence modifications come into effect

- REC v2.0 main body and revised versions of the operational Schedules previously consulted upon alongside the June document, which subject to responses to this consultation will be 'baselined'; and

- Draft Schedules and/or working papers that have not previously been subject to consultation and will be further developed alongside SCR drafting, prior to being baseline end of Q1 2019.

Statutory notices

The statutory notices provided under 23(2) of the Gas Act 1986 and/or 11A(2) of the Electricity Act 1989 of our intention to modify the standard condition of all licences, have been published alongside this document. They are available on our website and can be accessed via the links below:

- Gas Transporters Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_g_t_1.0.pdf

- Gas Shippers Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_g_ship_1.0.pdf

- Gas Suppliers Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_g_t_1.0.pdf

- Gas Interconnectors Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_g_i_1.0.pdf

- Electricity Generation Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_e_g_1.0.pdf

- Electricity Transmission Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_e_t_1.0.pdf

- Electricity Distribution Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_e_g_1.0.pdf

- Electricity Suppliers Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_e_supp_1.0.pdf

- Electricity Interconnectors Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_e_i_1.0.pdf

- Smart Communications Licence:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/statcon_dcc_1.0.pdf

REC v1.0

- REC v1.0 main body:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v1.0_main_body.pdf

- REC Schedule 1: Interpretation:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_schedule_1_-_interpretation_-_15_october_0.pdf

- REC Schedule 2: Transitional Requirements:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v1.0_schedule_2_-_transitional_requirements.pdf

- REC Schedule 3: Accession Agreement:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v1.0_schedule_3_-_accession_agreement_0.pdf

- REC Schedule 4: Company Governance:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v1.0_schedule_4_-_company_governance.pdf

REC v2.0 Baselined documents

- REC Schedule – Registration Services:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v2.0_-_registration_services_schedule.pdf

- REC Schedule – Address Management:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v2.0_-_address_management.pdf

- REC Schedule – Data Management:
  https://www.ofgem.gov.uk//system/files/docs/2018/10/rec_v2.0_-_data_management_schedule.pdf

- REC Schedule – Interpretation (v2.0):
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v1.0_and_v2.0_-_interpretation_schedule.pdf

REC v2.0 Draft documents

- REC Schedule – Service Management:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v2.0_-_service_management_schedule.pdf

- REC Schedule – Entry Assessment and Re-Qualification:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v2.0_-_entry_assessment_and_qualification.pdf

- REC Schedule – Switch Meter Reading Exceptions:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v2.0_-_switch_meter_reading_exceptions.pdf

- REC Schedule – Debt Assignment Protocol:
  https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_v2.0_-_dap_schedule.pdf

Our responses to the detailed comments that we received from the June consultation the on Registration Services, Address Management, Data Management and Interpretation REC Schedules can be found at the following link
https://www.ofgem.gov.uk/system/files/docs/2018/10/rec_appendix_-_schedule_response_summary.xlsx

Appendix 6 – Privacy Notice on Consultations

Personal data
The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer
The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem".) The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. ie a consultation.

3. With whom we will be sharing your personal data
Unless you indicate otherwise, we will make your response, as provided, available online.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years following go live of REC v2.0.

5. Your rights
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with third parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US.) In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

9. More information For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".