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14th November 2018

ICoSS response to Switching Programme. Regulation and Governance way forward and statutory consultation on licence modifications

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

Executive Summary

- We are generally supportive of the proposals contained in this consultation regarding the establishment of the Retail Energy Code (REC) to govern switching activities in both gas and electricity markets and agree that it represents an opportunity to streamline existing governance processes.
- The recent process for appointing shipper-nominated directors to the Xoserve board represents the best mechanism for creating the new REC board.
- We support additional support from the REC to develop industry change, but industry parties must remain the instigators and controllers of the change management process.
- There does not seem to be any need to substantially increase the accreditation or security processes around switching activities, considering the successful operation of the existing regime over the last 20+ years.
- The proposed licence conditions represents a pragmatic way forward to achieve the goals of the Faster and More Reliable Switching programme and believe they should be extended to other industry codes.

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[1]:

Creation of the Retail Energy Code.

We agree with Ofgem that there is some value in setting up the new Retail Energy Code at this stage to give structure to the transition from the current code arrangement to the new consolidated code framework. It would seem prudent to utilise the existing project structure during the transition period, rather than create a full governance structure, though we would expect that industry parties will be given sufficient time and opportunity to comment on any new content of the REC.

We agree with Ofgem's proposals to continue funding the governance of meter point related activity to be based on the number of meter points that the supplier is responsible for as this is the fairest mechanism for sharing out the costs.

4. Enduring REC Governance

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 members need to ensure that they are scrutinised for their performance and ability to represent the interests of those parties who are signatories to the REC. We note that the recent process by ICoSS-EUK to appoint the shipper nominated board members for Xoserve has been a great success, substantially increasing engagement by Xoserve at a senior level with shippers, and going a long way to transforming Xoserve into the customer-facing body it needs to be. This process, where industry trade bodies on behalf of the market appoint board members, would seem to represent the optimum mechanism for appointing the initial board members, as well as providing a robust process for the future.

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?

Our members have considerable difficulty in progressing market change (in particular in the gas market) owing to the cost and complexity of developing a robust business case for any industry change. In principle we therefore agree with Ofgem's proposals to place a greater emphasis on the REC manager to develop industry change on behalf of industry parties.

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The current industry change framework is fundamentally sound however. The REC manager should only have very limited (as currently in the BSC) powers to raise change and any changes raised should still be owned by the proposers. In addition this greater role for the REC Manager should not reduce the ability for code parties to raise changes which they believe are appropriate. The REC manager should also be required to equally support any changes raised (otherwise the REC will have an effective veto). Furthermore, code parties should be fully engaged, as they currently are through industry meetings which are open to all, on any proposals and be allowed to challenge and provide input to any change.

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?
A direct vote would better facilitate changes being voted upon by those constituents only that have been impacted by the change; it is not appropriate that a supplier should be asked to vote on changes that will only impact transporters for example. As any change to the REC will likely impact all industry parties in a constituency equally, it will seem reasonable that any such voting mechanism should be based on a licence basis, rather than on a meter point basis which severely limited the development of the SPAA.

Question 4.5: Do you, in principle, support the approach to performance assurance outlined?
We are supportive of an effective performance assurance regime and believe that the market can build on its experiences in the BSC and UNC markets. Any approach needs to be proportionate to the risks that exist to settlement and be accommodating of the different market offerings that currently exist.

5. REC v2.0: Enduring switching arrangements
Please note that we have limited our responses to those areas that directly impact our members.

Question 5.1: Would you support the development of a REC digitalisation strategy?
Ofgem data requests currently represent a significant resource requirement on suppliers, which falls disproportionately on smaller parties. We would welcome any move that would increase Ofgem's ability to obtain data directly from central industry bodies. Similarly we would support any increase in the ability of industry parties to use and manipulate information from central systems to improve their business activities.

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

Whilst we accept the need for suitable qualification processes for new entrant gas suppliers, we would seek confirmation that existing gas suppliers that have been operating for many years in the market successfully will not be required to undertake unnecessary qualification activities as part of new arrangements.

Question 5.7: Do you agree with our proposal that   c) Suppliers that undertake a material change to their systems, processes or people should undertake Re-Qualification?

We are concerned over this proposal.   Such a process has not been thought necessary over the last 20 years in the gas market and we do not understand why it is felt to be required now. The primary organisation that will be negatively impact by any failure to connect will be the supplier that initiated the system change; there is not a systemic risk. Such a proposal will simply add cost and additional time to any new system development by a supplier and will act as an disincentive to undertake material changes to their systems.

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?
We agree in principle that obligations should site where they are most appropriate; however we note the existing SPAA schedule does not apply to non-domestic suppliers (as recognised by the current drafting of this REC schedule) and so any revision to the UNC should not inadvertently create additional obligations to non-domestic suppliers.

Question 5.16: Do you have views on the management of security requirements in the REC?
Currently security requirements for Smart Metering systems are onerous and we urge Ofgem to ensure that there is not any "gold-plating" of the security requirements for the switching regime which is not Critical National Infrastructure.   We note that there have not been significant concerns regarding existing security requirements for current switching processes and this wold indicate that current processes are proportionate.

6. REC v3.0: wider consolidation
Please note that we have limited our responses to those areas that directly impact our members.

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?
The key difference between the two models is the level of prescription placed upon parties.   It is difficult at this stage to understand the practical differences between the two models and we believe this concept should be reconsidered when more definite drafting is available.   We do

note however that current industry code drafting is prescriptive in nature and provides clarity to industry parties as to what is needed.

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

We support Ofgem's general proposal to consolidate the industry codes that cover retail activity into one document.   There would also be some value in consolidating some transferrable activities such as the theft provisions in DCUSA with the gas theft requirements. This will streamline existing code governance activities and reduce the operational costs on suppliers.

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?

We agree in principle that opportunities should be taken to consolidate industry processes where possible. As part of the development of the REC, it would not be advisable however to either substantially change the drafting or scope of these obligations, or to seek to transfer those areas which are deeply embedded into the systems and framework of the existing codes. In particular, we do not believe there should be any move to move existing shipper-led SPA activities from the UNC to the REC as this will be a complex and costly exercise for industry parties

Furthermore, the current SPAA arrangements do not extend in the most part to non-domestic suppliers. Their scope should not be extended to non-domestic suppliers as part of this exercise as the market circumstances have not changed. Going forward we believe that any existing SPAA change processes should continue to take into account the difference between domestic and non-domestic suppliers as it does currently and would welcome confirmation from Ofgem of that fact.   In both of these cases any change in these areas will add significant cost and complexity to the Faster and More Reliable Switching Programme and add risk that the deadline for the programme will not be met.   Focus should instead be on ensuring the current processes are fit for purpose at the start of the new switching regime.

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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?
We welcome Ofgem's proposal to fully incorporate the SMICoP into the REC and believe this should be undertaken as soon as possible.

Licence Conditions
Our comments are limited to supplier licence condition changes.

We are generally supportive of the proposed licence drafting to deliver the Retail Energy, believing that it will deliver the requirements of Ofgem's faster switching programme. We welcome in particular Ofgem's commitment to ensuring that the REC is hosted on a free to host website, as our members encounter considerable difficulty in getting access to key change documentation where it is unnecessarily located on "member-only" section of industry code websites. Restricting this information to those with logins particularly impedes small suppliers from engaging in the modification process.   We would welcome any move by Ofgem to extend this principle to all industry codes, such as DCUSA, SPAA and MRA, through the CACoP or licence conditions, with information restricted only on security grounds (theft detection procedures or to protect Smart Metering system security for example).

We acknowledge that Ofgem is seeking to impose new obligations on suppliers to co-operate with Ofgem to implement the results of any significant code review. We understand the need for these powers in light of the difficulties experienced by the industry with regard to Project Nexus and the move to Half-hourly settlement for Profile Classes 5-8.

Please contact me if you want anything further

Yours sincerely

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