

By e-mail to: [FWP@Ofgem.gov.uk](mailto:FWP@Ofgem.gov.uk).

Forward Work Programme 2019-2021

15 February 2019

### **Ofgem Forward Work Programme 2019 to 2021 – ELEXON response**

We welcome the opportunity to comment on the Ofgem Forward Work Programme (FWP) for 2019-2021.

As you are aware, ELEXON is the Code Manager and Delivery Body for the Balancing and Settlement Code (BSC). We are responsible for managing and delivering the end-to-end services set out in the BSC and accompanying systems that support the BSC. This includes responsibility for the delivery of balancing and imbalance settlement and the provision of assurance services to the BSC Panel and BSC Parties. We manage not just the assessment/analysis, but also the development, implementation and operation of changes to central systems and processes.

In addition, through our subsidiary, EMR Settlements Ltd, we are the Electricity Market Reform (EMR) settlement services provider, acting as settlement agent to the Low Carbon Contracts Company (LCCC), for Contracts for Difference (CfD) and Capacity Market (CM). EMR services are provided to the LCCC through a contract and, like the BSC, on a non-for-profit basis.

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

ELEXON has the following observations on several of the workstreams under two of four Key Priorities in your Forward Work Programme 2019-2021.

#### **Priority 1: Making retail markets work for all**

##### Supplier licencing review

We are supportive of the overriding principles set out to guide the Supplier Licensing Review. We acknowledge that the proposed changes outlined in the Supplier Licensing Review aim to strengthen Ofgem's criteria for assessing supply licence applications, and in turn will increase operational oversight of performance.

From our side, we have continuously adapted ELEXON's operational services to support an increased number of new market entrants with little or no prior experience in energy markets. We have been assisting new energy industry participants and technology providers through our education and advice on market entry requirements. We see this service as an important component of our neutral and independent role of a critical friend, facilitating equal access to energy markets.

In the day-to-day operations, we maintain our focus on helping the BSC Parties to operate efficiently and effectively. We do this through our programme of training, support and performance monitoring, which is constantly evolving to reflect the changing market conditions. This allows us to identify potential knowledge gaps among BSC Parties and any emerging performance issues early on, thus providing benefit to the accuracy of BSC costs and aiding Parties before issues significant issues arise.

We recognise the fact that all Suppliers are different and we therefore adjust our services accordingly to strike the right balance for each individual company. We achieve this through dedicated support from our Operational Support Managers (OSMs), who are assigned to all Suppliers, Supplier Agents and Distribution System Operators (DSOs). More information can be found here – ELEXON’s full response to Ofgem’s consultation on Supplier Licensing Review can be found here: <https://www.elexon.co.uk/documents/industry-consultations/2019-industry-consultations/auto-draft-51/>

### Switching Programme

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

However we believe that the industry could achieve even greater alignment and simplification of central code services to bring the ‘whole systems’ approach to life. A close alignment between not just the Retail governance arrangements, but also the consideration of the Wholesale/Settlement aspects of the gas and electricity parts of the code governance framework, will be key to implementing the principles of the ‘whole-system’ approach. We firmly believe this is a much needed development to allow for further alignment between electricity and gas, energy and transport, energy and heat networks. This will realise a reduced complexity and cost burden for market participants and consumers respectively.

The details of our thinking can be found in recent ELEXON’s responses to Ofgem’s consultations on: Switching Programme: Regulation and Governance - way forward and statutory consultation on licence modifications (Nov 2018): <https://www.elexon.co.uk/documents/industry-consultations/2018-industry-consultations/elexons-response-to-ofgems-consultation-on-switching-programme-regulation-and-governance/>

Ofgem Switching Programme: Proposed modifications to regulation and governance (July 2018): <https://www.elexon.co.uk/documents/industry-consultations/2018-industry-consultations/elexon-response-to-ofgem-consultation-on-the-switching-programme-proposed-modifications-to-regulation-and-governance-2/>

### **Priority 2: Enabling future markets and system arrangements**

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

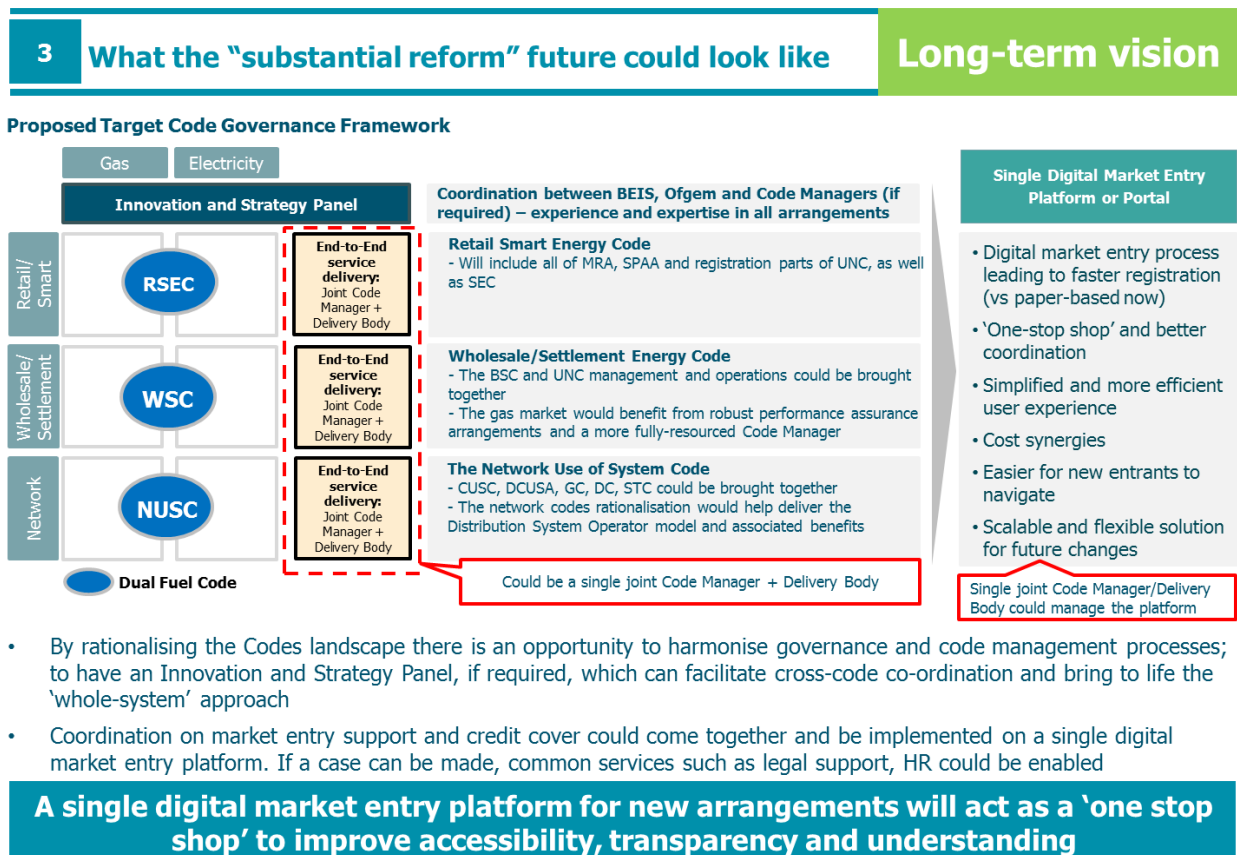
There is a significant amount of industry change planned for the next decade, particularly in the electricity sector, and it is important that stakeholders are clear on where the government and regulator expects resources and effort to be prioritised to maximise benefits for consumers.

### Joint BEIS/Ofgem review of Energy Codes

Since the launch of the Codes Review in November 2018 we have sought to support BEIS and Ofgem through sharing our experience, expertise and our ideas for code simplification and consolidation and practical ways of achieving it.

We have proposed a “Three Code (horizontal) model” (see Diagram 1 below) – bringing the current Codes together across fuels (rather than a vertical within fuel model) alongside with a number of suggestions on ‘quick wins’ that we believe can be ‘no-regret’ improvements to the code governance under the current model/landscape while a wider Review is ongoing.

DIAGRAM 1



We will continue to evolve our thinking, together with BEIS/Ofgem and the industry, in order to come up with practical, achievable and cost effective routes to enable the transformation of the central services. However, we would highlight that there is a need to consider both Code Management and Delivery within the scope of the Review, as there is to review the existing disparate funding arrangements which underpin Codes.

Review of future retail market design

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

We support Ofgem's intention to unlock any barriers that may arise to putting the needs of consumers at the heart of the energy system.

Based on our understanding of the strategic priorities for the energy industry and expertise in codes and central systems, ELEXON developed a white paper on enabling customers to buy power from multiple providers in April 2018. The white paper proposed a solution to change ELEXON's Supplier Volume Allocation (SVA) arrangements in order to recognise the right of customers to buy electricity from (or sell electricity to) other parties (not necessarily licensed Suppliers). Full details can be found here <https://www.elexon.co.uk/wp-content/uploads/2018/04/ELEXON-White-Paper-Enabling-custoers-to-buy-power-from-multiple-providers.pdf>.

Ofgem and the industry were supportive of the solution proposed by ELEXON; however, it took more than half a year for a BSC Party to raise a modification. Given the support from Ofgem and the industry, we believe it would have been easier for Elexon to raise the modification, if we had the ability to do so in order to initiate the process of developing a detailed solution by the modification working group.

In respect of the current status of the initiative - the industry raised a Modification in January 2019 to develop the proposed solution further. The first working group meeting is expected to take place before end of February 2019. The full details and current status of the Modification P379 'Multiple Suppliers through Meter Splitting' can be found here: <https://www.elexon.co.uk/mod-proposal/p379/>

#### Supporting innovators (Innovation Link)

We welcome Ofgem's lead on supporting new business models and innovation into the electricity sector through its Innovation Link initiative. ELEXON has provided expert advice to Ofgem in their 'Sandbox' programme to help identify where barriers to innovation may exist today. We will continue to provide further support to Ofgem's Innovation Link team and will ensure the BSC 'Electricity market sandbox' is aligned with Ofgem's efforts to ensure innovators have a seamless experience in dealing with the regulator and central bodies.

As experts in code management, code operations and systems delivery with deep industry knowledge, especially expertise in balancing and settlement and performance assurance, we will continue to offer support to Ofgem in implementing the strategic change initiatives to the electricity sector and wider energy industry.

If you would like to discuss any areas of our response, please contact Alina Bakhareva, Strategy and Market Advisor on 020 7380 4160, or by email at [alina.bakhareva@elexon.co.uk](mailto:alina.bakhareva@elexon.co.uk).

Yours sincerely,

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