ELECTRALINK'S VISION – GOVERNANCE OF THE RETAIL ENERGY CODE

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The energy retail market is undergoing a period of fundamental change. New suppliers are entering the market with new and innovative business models that are designed to lower their cost to serve and make use of the increasing prevalence of technology to improve customer service. There are now over 50 active suppliers with small suppliers accounting for an increasing market share. This has changed how code management services are delivered. Relying on a few individuals to deliver and progress change through the process is no longer appropriate. Instead we see an expectation that the Code Managers will actively support change identifying solutions and progressing actions for the industry to consider.

The introduction of the Retail Energy Code (REC) will have a profound effect on the existing regulatory landscape by replacing multiple existing codes and facilitating competition, customer choice and reduced costs through faster switching. New technology and governance arrangements that are centralised and more consolidated will lead to successful market transformation. This should support continued increase in supplier competition, and the possible re-structuring of the supplier hub principle. The REC is being developed against a backdrop of increased scrutiny, and criticism, of the transparency and effectiveness of the existing regulatory framework. The design and governance of the REC must meet those challenges.

ElectraLink has contributed to the success of the competitive energy supply market for over 20 years, implementing market solutions through proactive code management and delivering data transfer in both the gas and electricity sectors. Senior members of our organisation are shaping regulatory and technical development of the Switching Arrangements, including REC. Drawing on our experience, this paper sets out our **recommendations for establishing effective REC governance**.

Our thinking has in each area been guided by 5 key questions which any solution should be tested against:

Is the solution cost effective?

Is the solution flexible enough to meet future demands?

Is the proposed scope appropriate?

Are the key service providers accountable?

Is the solution innovative?

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REC SCOPE AND STRUCTURE

The REC must be an accessible document to drive change and facilitate competition in the retail energy market. We recommend its structure should mirror that of the SPAA which has demonstrated itself to be flexible and able to evolve without slowing down existing processes. The REC should comprise a main body agreement governing core processes and principles which apply to all Parties. Operational or technical schedules, products and guidelines should supplement the main body and be user category specific. To enable flexibility, appropriateness and cost effectiveness, change processes should be commensurate for each.

Much has been made of the opportunity to migrate existing governance arrangements in to the REC. This is a sensible ambition but should not be the defining goal of REC. An overcomplicated, bloated and rigid REC will increase costs and reduce transparency and limit change. This goes counter to everything that it is trying to achieve on behalf of the consumer. Instead we should migrate slowly to minimise impact, risk and cost to industry – assessing each element and the case for change in turn. Some industry processes not central to faster switching e.g. TRAS and the Green Deal, may be better off left where they are, at least in the short term.

The SPAA is an excellent example of how scope has expanded over time enabled by flexible governance arrangements. At its inception in 2004 it governed only the basic operational procedures relating to switching in the retail energy market. Its scope has since diversified to include metering, data transfer, performance assurance and theft arrangements, growing from 4 to 40 separate schedules. This growth has been facilitated by strong code management of industry parties and a structure that allows the addition of discrete products and schedules. Each of these is focussed on specific areas, and the development of specialist governance arrangements commensurate to each, e.g. the MAMCoP Change Process.

Laying the right foundations for the REC now will allow future development to flow naturally, with each being scope appropriate, cost effective, flexible and innovative.

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DEVELOPMENT OF THE REC

1 REC V1.0 - TRANSITION (IN LINE WITH CSS DESIGN & BUILD)

- Code boiler plate provisions

- Governance requirements

- Transitional requirements relating to testing, data migration, in flight switches, assurance and post implementation support

3 REC V3.0 - AND BEYOND...

- Addition of other schedules e.g. existing arrangements under other Codes (as and when determined suitable for migration by existing Code Panels) e.g. theft, green deal, vulneraility, supplier agent interactions

- New initiatives driven by industry developments

2 REC V2.0 - ENDURING (IN LINE WITH CSS GO-LIVE)

- Main body with boiler plate governance provisions e.g. change process, funding arrangements, Panel duties

- Operational Schedules including:

  - Switching Schedule setting out end to end switching arrangements

  - Address Management

  - Data Management – covering processes relating to MDD and application of sanctions

  - Issue Resolution – covering Erroneous Switch resolution, crossed meters, duplicate MPXNs

  - Meter Reads – covering agreement of CoS Read and Disputed Read processes

  - Prepayment – covering smart and legacy prepayment provisions.

- Technical documentation including user interface documentation, system specifications etc.

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STRUCTURE, ROLE AND RESPONSIBILITIES OF PANEL AND CODE GROUPS

The duties of the REC Panel must be concerned with the overall effective and efficient operation of Code at a strategic level, its scope focussed to the 'big ticket' items. Day to day code operational or technical matters should be delegated to a combination of the Code Manager and specialist sub-committees. This will ensure matters are dealt with by those best placed to manage the risk and with the suitable skills and experience.

For the REC we recommend a Panel built on the following:

- Independent Chair;

- Constituency model;

- Elected members;

- Majority vote; and

- Focus on core strategic duties.

At the inception of a new code, users' focus is naturally on their ability to influence decisions. The assumption that all matters must be governed by Panel will result in an overcomplicated Panel structure / decision making process. By focussing the Panel on strategic matters, user resource can be better targeted to operational delivery and change.

A governance regime that appoints suitably skilled and accountable members and allows straightforward decision making will increase Panel efficiency and effectiveness. The Panel should have the ability to delegate responsibility to the Code Manager or establish sub-groups as required, be that standing expert groups which it can direct issues to or short-term projects.

It is usual in existing Codes for Panel members to be automatically appointed Directors of the associated corporate body. For REC we recommend that the Board of REC Co. should comprise both REC Panel members and independent directors ensuring the suitable corporate and financial skills are available to manage REC Co. effectively and efficiently.

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MODIFICATION PROCESS
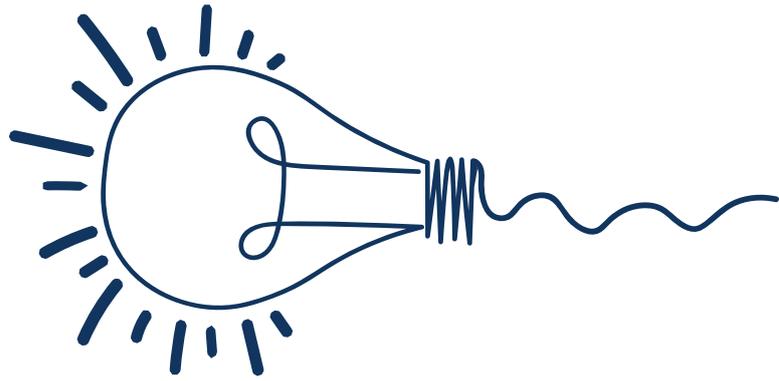
A proliferation of modification processes exists across the Codes, adding to the complexity and costs for market participants which ultimately get passed onto the consumer. Both SPAA and MRA utilise flexible and appropriate modifications processes based on a self-governance model which enable full representation of all Parties. This approach should be mirrored for the REC.

The REC modification process must be transparent in operation and ensure each party can easily engage on matters which impact their organisations, has a vote that counts, and is able to participate regardless of size. No single party, corporate group or sub-set of parties should have undue influence, intentional or otherwise.

The modification process must be commensurate to the issue in hand. A flexible approach utilising Urgent, Fast Track and Housekeeping paths, will ensure each modification progresses on a track best suited to its subject matter and / or complexity.

A Change Board should be established for managing the assessment and voting of changes to allow the Panel to focus on its key duties. It should not be necessary to set up a Working Group for every modification – instead, where possible, grouping them under subject Expert Groups would be a better use of time - such as the SPAA Expert Group or the Theft Issues Group under the SPAA and DCUSA. This organised structure prevents the proliferation of separate meetings which increases cost and limit participation through saturation of calendars.

The development of the REC modification process should look closely to the lessons learned from the Smart Energy Code, whose change process is currently under review to address inefficiencies.

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CODE MANAGER

The REC Code Manager appointment must be via an open and transparent procurement process. The Code Manager should be selected based on their proven technical competence of delivering a comparable high quality service - including regulatory arrangements linked with industry scale technical services. The Code Manager must be able to demonstrate proven ability of delivering solutions to industry as well as cost effectiveness, guarding against the costs of services rising post contract award. The Code Manager must also be able to offer innovation, representing more than just technical solutions, but an innovative approach to governance and processes. Opportunity should be taken to utilise online technology to better manage the Codes, such as delivering the content of the REC in way that allows users to access those elements that apply to them – viewing the end to end process model alongside the relevant business rules.

The contract should include measurable and meaningful performance levels and associated service credits. The contract should be for an initial 3-year term with the option for short term extensions and a requirement for competitive re-procurement at least every 5 years.

The REC Code Manager must be CACoP compliant and demonstrate it is working for the good of industry. It should carry obligations for continual improvements, innovation, customer satisfaction (as measured by an Ofgem independent survey) and be accountable to industry via the REC Panel.

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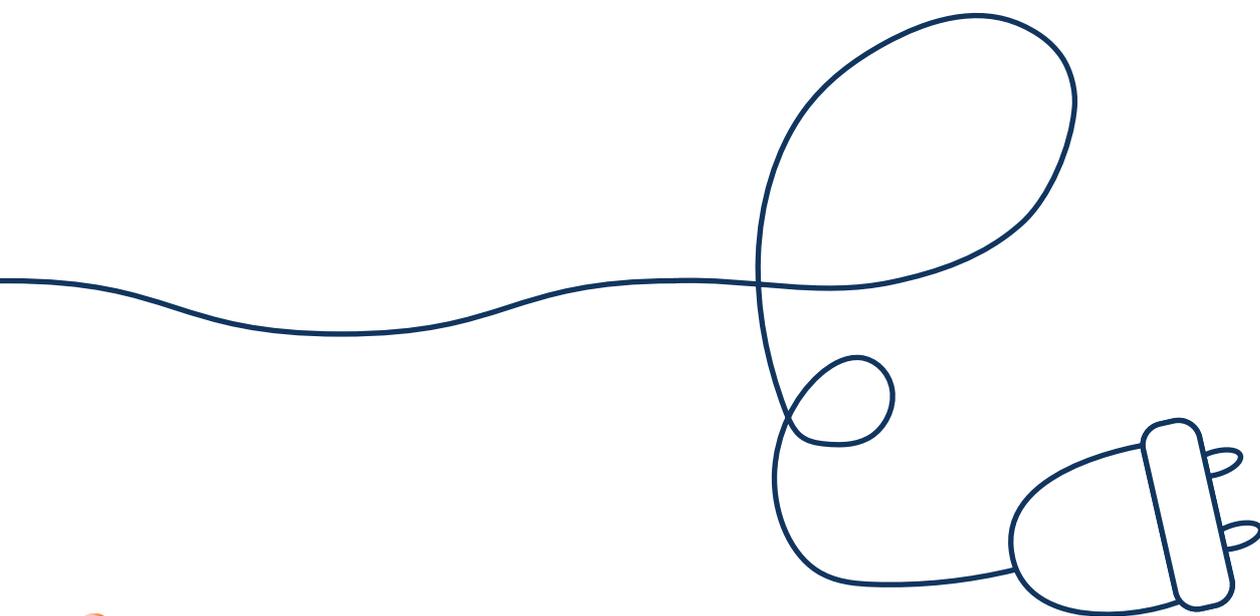
SUMMARY

The REC provides an invaluable opportunity to demonstrate learning from the development and implementation of recent codes, as well as a chance to innovate and reduce some of the restrictions in the current governance framework. Doing so will drive efficiencies in process, encourage new players to the market and demonstrate a willingness from industry to transform the regulatory landscape, leading in turn to consumer benefits.

It is vital that the scope of the REC, and its core governance functions, are ring fenced to the key issues at go-live, with the flexibility to transform over time. The programme must establish a solid, reliable foundation allowing structured, low risk migration from other codes in due course without increasing pressure on already stressed and fractured industry.

The chosen solution must be assessed against the key principles of appropriate scope, cost effectiveness, accountability, flexibility and innovation if it is to address the perception that energy regulation is inflexible, slow, costly, and a barrier to entry.

Further information

We would be delighted to discuss this paper and our views in more detail. Please contact us if we can be of any further help.

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