

MODERNISING ENERGY GOVERNANCE 3: BUILDING A NEW MODEL

Today's energy market is characterised by its many codes, complex rules, and a range of market access routes. The energy sector must also evolve to deal with a new energy paradigm. Ofgem's "Sandbox" experience graphically illustrates the challenge: 70% of expressions of interest could have been helped without recourse to rule change or derogation.

In Part 2 of this series, we outlined a Target Operating Model (TOM), with a single portal to service users' needs. Here we discuss some of the reform building blocks, essential to kick-start the reform agenda.

MEETING THE DATA AND DIGITAL CHALLENGE

The UK's energy data is fragmented, with a multi-governance, multi-ownership landscape, leading to inconsistent security, data integrity and data access measures across the energy sector. This is further complicated by organisations adopting differing "red lines" when it comes to data-access permissions. Responsibility for maintenance and ownership is poorly defined and tensions can arise where data needs to be shared across the sector.

Machine learning and artificial intelligence make a compelling case for digital capability in regulatory and governance delivery. Digital transformation is not linear. We don't need to develop a perfect strategy before we can begin to deliver digital services.

Instead, we can use its iterative release cycles, which promotes a "fail fast, learn faster" approach. Solutions can be tested with users quickly by running services in parallel, and road-testing new solutions alongside existing services before cutting over. Iteration helps in testing innovative design concepts, for example prototyping automation, machine learning and AI solutions.

The government's Energy Data Taskforce is now considering energy system data in concert with other sectors and wider society. Its report is expected early in 2019. The entire energy sector must react. It urgently needs a cohesive data approach across the energy supply chain.

MANAGING MARKET RISK

We cannot continue framing market risk based on a 1986 Gas Act and a 1989 Electricity Act that both predate the birth of the internet and smart technology. It is certainly not sustainable to keep adjusting the current market rules to try to keep up with a rapidly evolving market.

The Target Operating Model (TOM) we have proposed moves assurance from a static rule-based compliance "checklist" approach to one that is risk-based, addressing

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real market behaviour and market action under a dynamic market-assurance framework. Feedback loops and incentives reinforce good behaviours, weeding out poor performance, with the wider industry taking responsibility to ensure the energy market works for everyone.

The Financial Conduct Authority (FCA) approach, with more than 58,000 firms to oversee, is instructive. The FCA concentrates resources on those that are most likely to cause harm to consumers, damage market integrity or weaken competition. Crucially, it does not try to remove all harm from markets or operate a zero-failure regime.

The energy market risk-assurance methodology should also focus on a wide range of risks, like business behaviour, culture and approach to overall market integrity. Data and digital technologies are crucial in helping manage risk.

This is a huge change. We can start with the government's forthcoming power sector White Paper. It should ask whether the precautionary principle is helping or harming markets, how risk is apportioned and transferred across the market, and what consumer benefits are being lost with the present model.

START WITH RETAIL

The new Retail Energy Code (REC) is an opportunity to kick-start a "new way", transitioning existing standard practices and services from the Master Registration Agreement and the Supply Point Administration Agreement.

A new REC begins with a single portal underpinned by data and a digital transformation strategy. The Portal could create smart links to other market web-based services and have accessible dashboards and market interactive responsive services. Users would have simple, consistent, standard procedures and mechanisms to help them navigate the retail market and manage their needs.



The multitude of energy market web-sites would over time become "dumb" to the user, once the interfaces with the Portal are established and the processes normalised. An open standards framework would enable third party service providers to support the market.

We need not wait upon legislative change, but we must frame the REC correctly and provide a good foundation for the transformation. A REC Portal could be up and running in simple form by Spring 2020 using agile, scalable, cloud-based services and open standards.

Over the coming months, Gemserv will be pressing for transformative change and action, starting with the REC, to help take forward a package of reforms as set out in this paper.

Get involved: contact us at strategy@gemserv.com.