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Sent by email only to: [switchingprogramme@ofgem.gov.uk](mailto:switchingprogramme@ofgem.gov.uk)

Dear Nicola,

### **Statutory Consultation on Supply Licence Changes for the Switching SCR**

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage and NEAS Energy.

We continue to support the development and implementation of the new faster and more reliable switching arrangements via the Switching Programme.

On the whole, we agree that the proposed supply licence drafting reflects the required changes for the implementation of the new faster and more reliable switching arrangements and is consistent with the programme design.

However, current market conditions, with extreme wholesale price volatility, rising costs of energy supply and high levels of uncertainty on future developments, create concerns in relation to the potential unintended consequences and implementation timing of the proposed supply licence changes. Below we highlight two areas of concern which arise from interaction between market conditions and licence change implementation: unintended outcomes from the proposed cooling off arrangements and potential increased risk arising from implementation timing.

In addition, several critical retail market policy decisions, which may have material impact on switching behaviours and mechanisms, remain unknown at the time of submission of this consultation. We suggest it would be prudent to allow for further monitoring and re-evaluation of the effects of shortening switching timelines in light of market developments prior to full implementation.

### **Proposed Cooling Off Arrangements & Default to Deemed Contract Terms**

The proposed Cooling Off arrangements and ensuing licence drafting were not designed in the context of current market conditions.

Specifically, the proposals in SLC 14A.14 create a scenario where consumers are temporarily charged under the terms of a newly agreed contract before defaulting

onto Deemed Contract Terms (after cancelling a contract during the cooling off period and failing to enact a switch away to their original / alternative supplier within the grace period). This creates commercial challenges with suppliers potentially being unable to recover hedged energy costs where a customer cancels a fixed term contract and defaults to a lower cost SVT, that would otherwise not have been available to them with the new supplier. This could result in targeted switching behaviours that were completely unexpected at the time of design.

This risk and potential mitigations should be explored by Ofgem to ensure that suppliers are not exposed to this at implementation and are able to recover costs for energy purchased for customers who choose to switch to them and subsequently cool-off.

### **Implementation Timing for the Proposed Supply Licence Changes**

Ofgem has recognised elsewhere that existing high and extremely volatile wholesale energy prices not only create material hedging and financeability challenges for Energy Suppliers but also real risks of consumer harm.<sup>12</sup> The implementation of end of next day switching, coincident with potentially falling market prices for consumers would exacerbate this.

Given the fluidity of the current market conditions and the pending outcome of major policy consultations related to the price cap and potential market stability interventions<sup>3</sup>, we would consider it prudent for Ofgem to defer irrevocable decisions on the timing of the implementation of the new and reduced switching SLAs.

This is not to say that we are immediately advocating for a delay to the implementation of these policy changes. The extreme volatility in wholesale prices and the uncertainty that this creates, in combination with potential related retail market policy decisions, mean that a decision at the current time would be on the basis of incomplete and uncertain information. As such, we would encourage Ofgem to commit to reviewing whether it is appropriate to continue with the current implementation plan in the coming weeks, particularly once decisions on price cap methodologies and potential interventions to address market volatility are known. This would allow Ofgem to consider the effect and unintended consequences of shortening switching timescales under a range of market scenarios, and to consult with industry to gain greater understanding of risks and impacts.

Switching Programme strategic risk SR006 seeks to evaluate and address market stability concerns and would perhaps offer a good vehicle through which the issues raised above could be assessed via programme governance.

Should it be determined that the market would be better served through a delay to the implementation of next day switching capability, we believe that that this could be achieved without requiring a further deferral to the programme as a whole.

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<sup>1</sup> [Statutory consultation on potential short-term interventions to address risks to consumers from market volatility | Ofgem](#)

<sup>2</sup> [Price Cap – Consultation on the potential impact of increased wholesale volatility on the default tariff cap | Ofgem](#)

<sup>3</sup> In particular the consultations referenced immediately above

Industry and consumers alike would benefit from the implementation of the new CSS and the potential reliability improvements that would be delivered.

Therefore, an effective compromise could be a phased implementation of the associated regulatory changes, with consumers switching via the new Centralised Switching Service to existing supply licence SLAs, until such a time where we have greater stability in the market. This approach would also provide opportunity to ensure that the new switching systems and processes can be fully proven at scale in a live environment, and incorporating any changes to retail market policies that were unforeseen at the point of design, mitigating the risk to consumers of reliability issues that may be experienced at cutover.

We have addressed the question posed within the consultation within the main body of this letter and have added detailed comments on the drafting of the Supply Licence Conditions below in Appendix A.

We would be happy to discuss our response and thoughts with you in more detail. Should you have any immediate questions please contact me.

Yours faithfully,

Adam Iles

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## **APPENDIX A: Detailed Drafting Review Comments**

**Question 1: Do you agree that the proposed changes to the Electricity Supply Standard Licence Conditions will ensure the licence reflects the necessary conditions for implementation of the Switching Programme?**

**Electricity Supply SLC Notice – SLC 1** - This may just be an issue with the SLC Notice document but Condition 1 opens with reference to Electricity SLCs but the definitions for Current Supplier and Old Supplier reference Gas? This does not appear to be repeated in the redlined full SLC document.

**Definitions for Condition SLC14A - A Valid Contract** - ends 'and' but no further content. Again suspect that this is just misalignment as the full redlined drafting includes clause (c)

**SLC 14A.18** This condition as set out works well for consumers who switch in line with the SLAs set out in 14A.1. However, we do not believe that this drafting considers how we should treat customers who have elected to choose a future dated preferred start date.

Taking the example of a customer electing to switch 28 days in the future, the cooling off period with Supplier B would lapse on day 14, yet Supplier A is still required to accept an equivalent terms return for a 16 working day period commencing 14 days later on the date of transfer -i.e. 5-6 weeks beyond the closure of the consumers cancellation period with Supplier B – in effect, they cannot cool-off on their contract with supplier B as the opportunity to do so would have passed, but Supplier A would still be required to take the customer back.

**SLC 14A.20** the current drafting in respect to the requirement to offer a returning customer an equivalent terms contract in our opinion still does not provide sufficient clarity as to how to treat customers who may be returning with a different metering set-up – i.e. having had a credit to prepayment meter exchange. In this situation it would not be possible to provide the customer with terms and pricing equivalent to their previous contract, unless we were to perform a further meter exchange which we would not consider proportionate. We note that Ofgem seeks to address this in 2.27 of the consultation document, however it remains unclear to how we would treat customers return in these circumstances.