



Moving to reliable next-day switching

Consultation

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Overview:

We want consumers to be able to reliably switch supplier the next day. We believe that this should be achieved by replacing the existing network run gas and electricity switching services with a new centralised switching service, run by Data and Communications Company (DCC). We want consumers to benefit from these new arrangements from 2018 at the latest.

Our proposals will require a major industry change programme. We are exploring how best to implement these changes.

Context

The government wants all consumers to have smart meters by the end of the decade.

We want to use the opportunities provided by smart metering to make the switching process faster and more reliable for consumers, open up opportunities for time-of-use tariffs and demand side response, and improve consumer protection (especially for vulnerable consumers), as we move to a more sustainable economy.

Our work on switching builds on the Retail Market Review (RMR) reforms to make the market simpler, clearer and fairer for consumers and increase engagement. It also supports our March 2014 State of the Market assessment which found that competition, including the switching process, is not working as well as it could for households and small businesses.

This consultation supports the commitment we made in our Forward Work Programme 2014/5 to make changes to existing market arrangements to deliver a faster, more reliable change of supplier process.

Associated documents

- *Promoting smarter energy markets: a work programme*. Ofgem, 31 July 2012
<https://www.ofgem.gov.uk/ofgem-publications/42591/promoting-smarter-energy-markets-work-programme.pdf>
- *Summary of findings of Change of Supplier Expert Group (COSEG)*. Ofgem, 3 December 2013
<https://www.ofgem.gov.uk/ofgem-publications/84903/cosegsummary.pdf>
- *Change of Supplier update*. Ofgem, 3 December 2013
<https://www.ofgem.gov.uk/ofgem-publications/84902/ofg505smartermarketsupdate1113web.pdf>
- *Ofgem Consumer First Panel - Research to inform Ofgem's review of the change of supplier process*. Ipsos MORI, 9 August 2013, published by Ofgem on 3 December 2013 <https://www.ofgem.gov.uk/ofgem-publications/84905/finalcospanel.pdf>
- *Non-domestic consumers and the Change of Supplier process - Qualitative research findings*. Collaborate research, September 2013, published by Ofgem on 3 December 2013 <https://www.ofgem.gov.uk/ofgem-publications/84908/non-domcosreportfinal181013lastandfinalforpublication.pdf>
- *Statutory consultation on licence modifications to enforce three week switching and prevent erroneous transfers*. Ofgem, 9 April 2014
<https://www.ofgem.gov.uk/ofgem-publications/87151/statutoryconsultationenforcethreeweekswitchingandpreventerroneoustransfers.pdf>

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Executive Summary

The switching process is critical to how consumers experience and respond to retail energy markets. Our March 2014 State of the Market assessment revealed that 27 per cent of customers who have never switched, saw it as a hassle and that the fear of something 'going wrong' during the switching process was off-putting for many. It also found that the way switching operates currently can reduce competition between suppliers by acting as a barrier for new market entrants and those wishing to expand. If consumers are more willing and able to switch energy supplier, there will be increased competition in the gas and electricity retail markets.

We believe that retail energy markets should be simple, fair and transparent. When a consumer wants to switch to a new supplier it should be an easy, reliable and quick process, with the switch taking effect at the start of the following day. To achieve this goal we want to overhaul the switching process and deliver new arrangements by 2018 at the latest.

The current switching processes depend on central systems that were developed in the late 1990s. Their design does not support our vision. They are:

- **Slow:** It takes around five weeks¹ to switch, which frustrates and confuses customers.
- **Inefficient:** There are separate and different switching processes for gas and electricity involving a range of different parties.
- **Unreliable:** Over 80 per cent of gas switches have taken longer than five weeks, there are high numbers of erroneous transfers in both the gas and electricity markets and in some cases data quality problems mean that the switch is abandoned.

We have identified a three-part strategy to improve switching. Firstly, we are making changes now to secure reliable switching for consumers. We are introducing new licence obligations for suppliers to switch consumers within three weeks (after any cooling off period) and to prevent erroneous transfers. We are also working with industry to improve data quality. These initiatives reflect our consumer research, which shows that reliability is the main concern for most consumers.²

Secondly, we have supported the industry's work to halve switching times to 17 days by the end of 2014. This is a welcome improvement and complements the changes that we are making now to improve reliability.

This document consults on the third part of our strategy which is to develop longer-term improvements that will serve consumers well into the next decade and build on

¹ This is from the current five week timescales made up of a two week contract cooling off period followed by three weeks for industry processes.

² Please see p5 <https://www.ofgem.gov.uk/ofgem-publications/84908/non-domcosreportfinal181013lastandfinalforpublication.pdf> and p6 <https://www.ofgem.gov.uk/ofgem-publications/84905/finalcospanel.pdf>

the opportunities created by the roll-out of smart metering. Our preferred option is to:

- Radically overhaul and re-engineer the switching systems and establish a new, centralised service run by the Data and Communications Company (DCC).
- Deliver reliable next-day switching so that a consumer can enter into a contract and be supplied by their chosen supplier at the start of the following day.

We have looked at a range of measures, but believe that our preferred option is the best way to meet our vision for a competitive, dynamic and efficient market with smart metering that delivers better outcomes for consumers.

We are seeking views on this proposal.


Implementing the proposal will be challenging and will require an industry-wide programme. We have made an initial assessment of the principles, issues and stages involved in delivering our proposals:

- **Implementation principles:** The project must focus on getting the best outcomes for consumers. Improvements should be in place as quickly as possible and by 2018 at the latest. Given the need for different skills at different stages of the programme, we should ensure the best use of skills across the sector for each stage.
- **Implementation issues:** Risks and issues must be carefully managed. These include: managing costs to avoid cost overruns; impacts on consumers in the transition to the new arrangements; keeping the project on track so that it delivers on time; and making sure that the DCC, and other parties, are not overstretched to the detriment of consumers.
- **Implementation stages:** The first stage is to develop a Target Operating Model which documents the detailed new business processes and regulatory rules and obligations. The next stage will make changes to the regulatory framework to put in place these new rules and obligations. Lastly, the new systems and processes will need to be built, tested and implemented.

We are now seeking respondents' views on how best to implement our proposals, including views on the principles, risks and issues and stages set out above. We also welcome views on the specific roles of individual parties in any implementation programme.

Specifically, we welcome views on:

- How best to develop a Target Operating Model (the blueprint for how the new switching arrangements and centralised registration systems will work) and the changes required to the regulatory framework.
- Implementing the regulatory changes through an Ofgem-led Significant Code Review (SCR). We are also interested in exploring any other practical routes to deliver our proposals.



Moving to reliable next-day switching

- What can be done to implement our proposals sooner than 2018 while maintaining the reliable operation of the market.
- New licence obligations on suppliers and network providers to take all reasonable steps to support the project.

We will publish our next steps, including whether we will launch an SCR and make changes to market participants' licence obligations to help secure delivery, around the end of 2014.

By the autumn we will also kick-off a review of the ability of suppliers to block consumer switches (an "objection") on certain grounds, for example where there is outstanding debt.

Responses should be received by 11 August 2014 and should be sent to:

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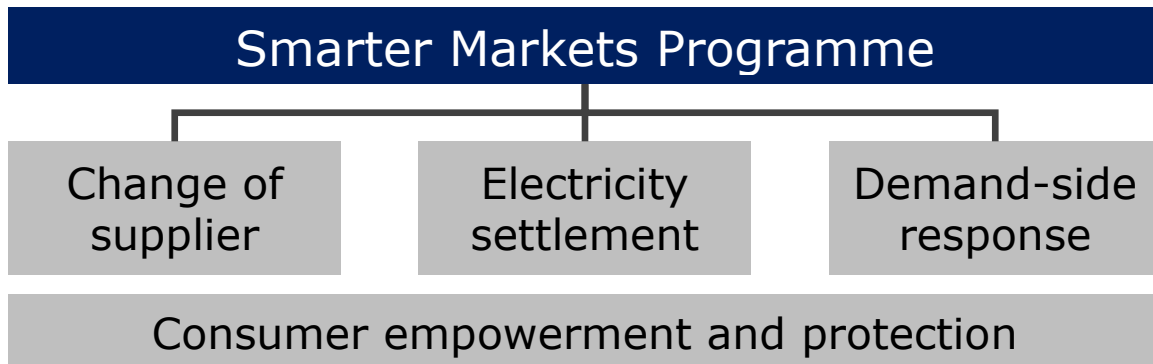
1. Introduction

Chapter Summary: This chapter describes our vision for smarter energy markets. We describe the scope of our review and the changes we are making now while we develop the longer-term proposals that are the focus of this consultation.

1.1. The roll-out of smart meters³ can make retail energy markets work better for consumers. To maximise these benefits, there must be changes to the arrangements that govern how industry participants interact with each other and with consumers.

1.2. In 2012, Ofgem launched its Smarter Markets Programme to ensure that consumers capture the full benefits of smart metering. The Programme identifies and implements changes to market arrangements to make the energy markets smarter. Through consultation, we identified four priority areas and these now form the first projects in the programme. One of these projects is to improve the change of supplier process and is the focus of this consultation. Figure 1 shows the structure of the Programme.

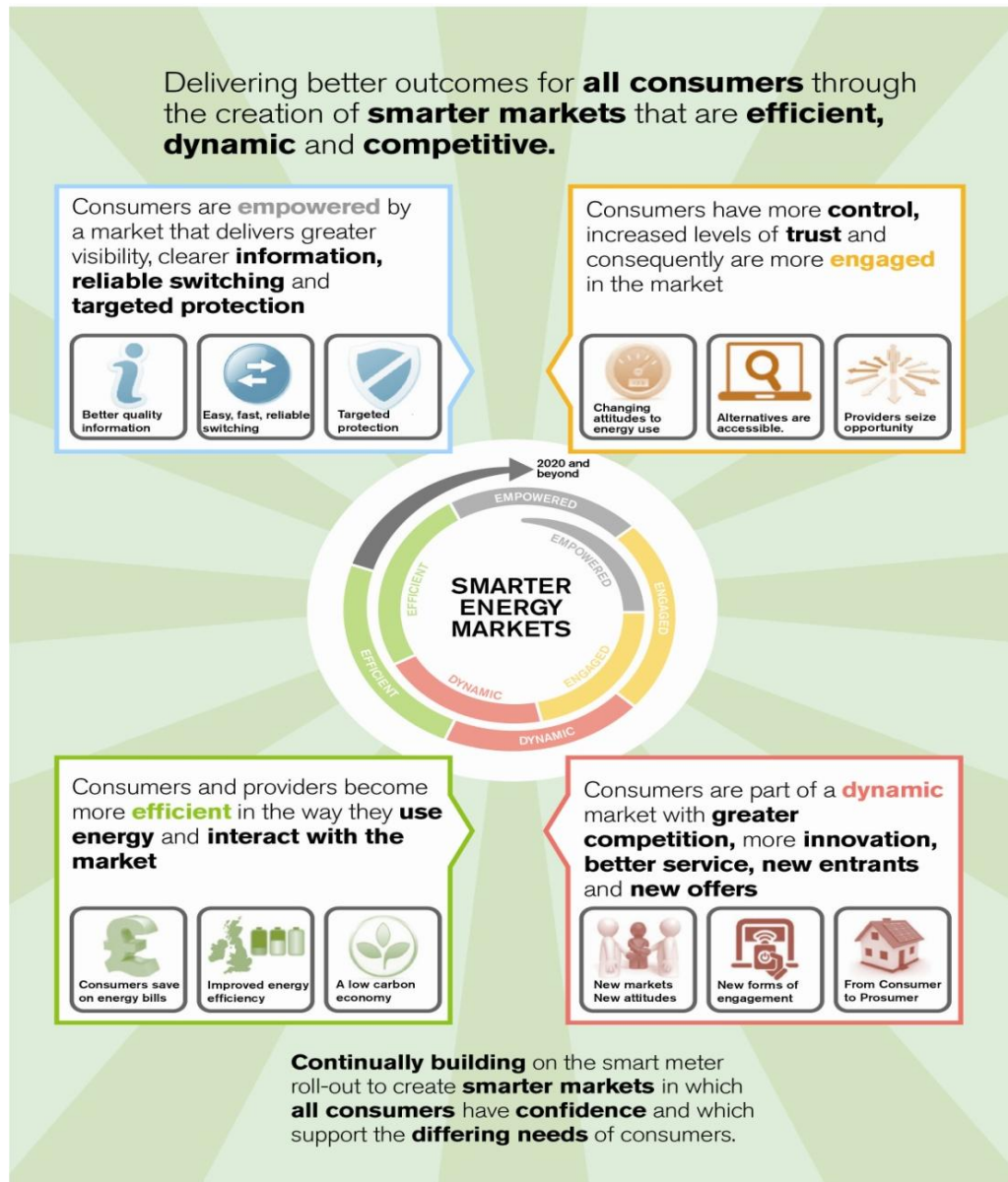
Figure 1 – Ofgem’s Smarter Markets Programme



1.3. Our vision, as described in Figure 2, is for smarter energy markets that are more efficient, dynamic and competitive. Our Retail Market Review reforms are the base from which we want to build trust and engagement through a simpler, clearer and fairer market. Smart metering will help deliver these objectives by giving consumers ready access to information about their energy consumption, so they can make better choices about how they use energy and the products they buy. Over time, more engaged consumers and the potential for innovation that smart metering presents, can create a more dynamic market with better service, new products and services, and new entrants. Some of these products and services can help consumers to use energy more efficiently, lowering bills and helping the transition to a low-carbon economy.

³ The roll-out of smart and advanced meters to domestic and non-domestic consumers can transform how retail energy markets operate. These meters will be capable of recording electricity and gas consumption in each half hour of the day. They can also be remotely read, removing the need to visit the customer's premises to obtain a meter reading.

Figure 2 – Ofgem’s vision for smarter energy markets



The change of supplier project

1.4. Consumers’ willingness and ability to switch energy supplier lies at the heart of, and drives, competition in the gas and electricity retail markets. It is therefore key to achieving our vision for smarter energy markets.

1.5. Our longer-term objective is to establish a change of supplier process that is fast, reliable and cost-effective. This will increase competition and build consumer confidence.

1.6. This project includes the change of supplier process for domestic and non-domestic gas and electricity customers and the arrangements for customers with traditional, advanced (AMR) and smart meters.⁴

1.7. We are considering all parts of the switching process from the point when a customer enters into a contract with a new supplier⁵ until they have received a closing bill from their old supplier and an opening bill from their new supplier.⁶ We have assessed the potential to centralise the registration arrangements, which are currently operated by gas and electricity networks, into a single service under the Data and Communications Company (DCC).⁷

Road map for reform

1.8. In December 2013, we published three key phases of work to improve the change of supplier process.⁸ The first two phases make changes in the shorter term, while our longer-term reforms are being developed. This document describes Phase 3 – our longer-term proposals.

Phase 1: Securing a reliable three-week switch now

1.9. Our consumer research⁹ told us that for most consumers, when thinking about the switching process, reliability was the number one priority. We are making several improvements now to secure a reliable three-week switch for consumers, while we work on more ambitious reforms. Supplier licence requirements will change to strengthen our powers to enforce three-week switching and prevent erroneous transfers. We are stepping up our monitoring of supplier behaviour on the change of supplier process with particular emphasis on supplier rights to block transfers – a key area of concern for non-domestic consumers.¹⁰ We are also working with the industry to improve the quality of address and metering data that suppliers require to support the switching process.¹¹

⁴ Our project scope excludes the switching arrangements for customers that are directly connected to the National Transmission Networks, unmetered customers and those being supplied on licence exempt networks and/or by licence exempt suppliers.

⁵ Our project scope excludes the initial customer acquisition activities.

⁶ This includes access to the metering information that new and old suppliers require for billing and accurate allocation of settlement and billing charges, any cooling off rights that customers may have to cancel contracts and any rights that suppliers may have to block transfers by raising an objection.

⁷ Initially, consideration of centralisation of Data Processing (DP) and Data Aggregation (DA) functions was assigned to the change of supplier project in the Smarter Markets Programme. However, we have provisionally concluded that centralisation is not required to improve the speed and reliability of the switching process. Nevertheless, stakeholders have suggested that other drivers for centralisation still remain, and that further consideration would most appropriately sit in the settlement project.

<https://www.ofgem.gov.uk/ofgem-publications/87053/electricitysettlementlaunchstatement.pdf>

⁸ Summary of findings of COSEG. Ofgem, December 2013 <https://www.ofgem.gov.uk/publications-and-updates/summary-findings-change-supplier-expert-group-coseg>

⁹ See Chapter 2 for further details.

¹⁰ Please see p5, 19 and 20: <https://www.ofgem.gov.uk/ofgem-publications/84908/non-domcosreportfinal181013lastandfinalforpublication.pdf>

¹¹ We will shortly be writing to the industry to initiate this work.

Phase 2: Supporting suppliers' response to government's challenge for faster switching

1.10. Suppliers have developed proposals that would halve switching timescales to 17 days by the end of 2014. This is in response to a challenge from government. These proposals have drawn on the detailed reform proposals developed during 2013 through Ofgem's Change of Supplier project.

1.11. We have supported these proposals and have now approved the changes to industry codes that pave the way for this important step. We have assumed that suppliers will make use of these new arrangements and have treated them as the baseline against which to consider our further proposals in this document.

Next steps

1.12. We welcome views on our proposal (described in Chapter 3) to overhaul the switching arrangements and deliver reliable next day switching for consumers on a new centralising registration service under the DCC, by 2018 at the latest. We also want to know views on the other options considered and if our target implementation date could be brought forward.

1.13. This is a significant project that requires careful planning. In Chapter 5 we set out our identified implementation principles, risks and issue and the three key stages of the implementation project. We welcome views on these. We also welcome views on how best to turn our high level proposals into a detailed Target Operating Model, using our Significant Code Review (SCR) powers to make the required changes to industry codes and licences and placing obligations on suppliers and networks to support the delivery of this project.

1.14. We will publish our decision around the end of this year. It will confirm the changes that we want to see made to the switching process for consumers. It will also describe how this programme of work should be undertaken, including if we intend to launch an SCR at this stage and the role of specific parties in developing and implementing the changes. To inform our decision, and following responses to this consultation we intend to review implementation options with the industry in Q3 2014.

1.15. Details on how to respond to this consultation and a summary of the specific questions that we have asked are set out in Appendix 1. We also welcome comments on any of the other issues that we have discussed in this consultation. Responses should be sent to Ofgem by 11 August.

1.16. In July we will hold a seminar for stakeholders to review the different elements of the Smarter Markets Programme. This will provide an opportunity to discuss the proposals in this document.

2. The case for reform

Chapter Summary: This chapter describes how switching affects consumers' experience of retail energy markets. It shows how the change of supplier process operates in practice. It then describes the potential benefits of improving the process.

Question 1: Do you agree that we have accurately described the benefits of improving the switching process?

Why is switching important?

2.1. The switching process is critical to how consumers experience and respond to retail energy markets. The switching process needs to serve consumers' interests so that they:

- Actively participate and understand that they can save money by switching supplier.
- Confidently interact with different parties with a role in the switching process, for example suppliers and Third Party Intermediaries (TPIs), such as switching sites and companies offering energy management services.¹²
- Are able to take a few, simple steps to quickly and reliably change supplier.
- Switch to tariffs and services that best meet their needs and switch again to access better deals when their needs change.

2.2. Improving the change of supplier process can provide direct benefits for consumers as well as wider competition benefits. This can contribute towards our vision for smarter energy markets that are more efficient, dynamic and competitive.

2.3. We believe that a more efficient, faster and more reliable process can reduce switching costs¹³ and increase consumer engagement. This can increase competition, leading to innovation, better service and pressure on prices.

2.4. Improving the switching process is one way in which we can encourage consumers to engage with the market. However, it also needs to be easier for customers to choose an appropriate tariff, and customers need to be confident that they understand that they are getting a better deal.¹⁴ These are the areas we have

¹² TPIs are organisations that operate between a consumer and an energy supplier to help consumers procure energy, manage energy related needs or provide energy related advice, such as brokers, switching websites and collective switching associations. TPIs can play an important role in promoting competition by empowering consumers and make easier for them to navigate the market more effectively

¹³ Switching costs can be real or perceived. Their effect is to increase the impact of the switch for the consumer, deter engagement and prevent them from realising the benefits of moving to a new supplier. See, OFT paper, Switching Costs (April 2003): <http://www.offt.gov.uk/OFTwork/publications/publication-categories/reports/competition-policy/oft655>

¹⁴ See p36, <https://www.ofgem.gov.uk/ofgem-publications/84905/finalcospanel.pdf> for further discussion

targeted with our Retail Market Review reforms for a simpler, clearer and fairer market, making it easier for customers to understand their energy supply and to choose the best deal.

2.5. We expect suppliers to respond in a more dynamic market by trying harder to attract new customers. An increased threat of losing market share will also encourage suppliers to offer good service, innovative products and competitive prices to their existing customers.

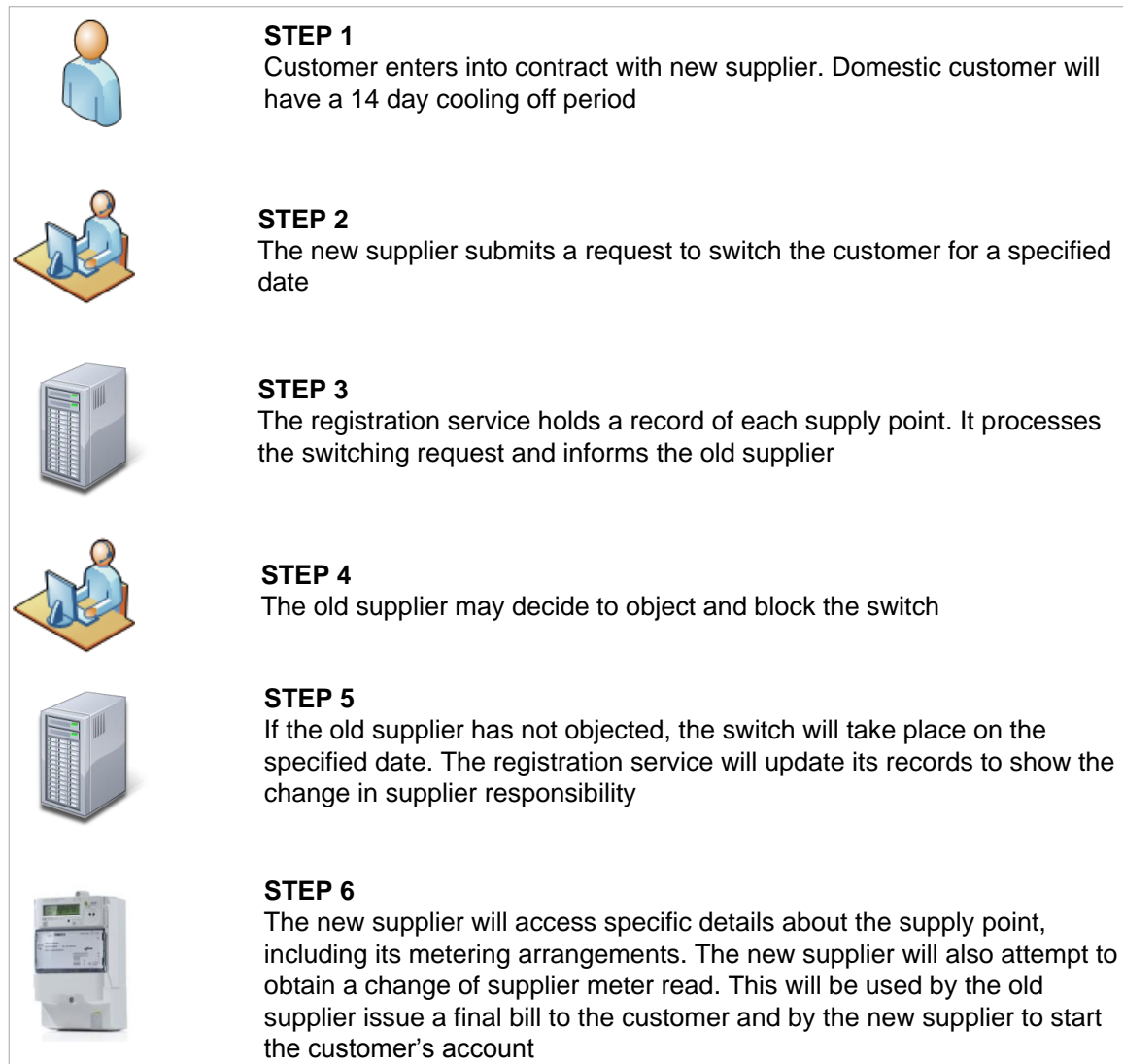
2.6. A more dynamic market, where customers are increasingly likely to switch, can encourage new parties to enter the market and existing suppliers to expand. A faster and more reliable change of supplier process can also create new opportunities for current and new TPIs. TPIs can play a major role in encouraging consumers to participate in the market and provide new ways for them to do so.

2.7. Improving the change of supplier process can lead to a virtuous circle. Improved consumer engagement would encourage suppliers to respond through pricing, service and innovation to meet consumers' needs and attract and retain market share. These improved offerings can then lead to more customers engaging in the market in order to benefit from them.

The switching process

2.8. Figure 3 below summarises the key features of the gas and electricity switching processes. While they share many common features, the detailed design and operation differ between gas and electricity markets. There is more detail in Appendix 2.

Figure 3 – Key features of the gas and electricity switching processes



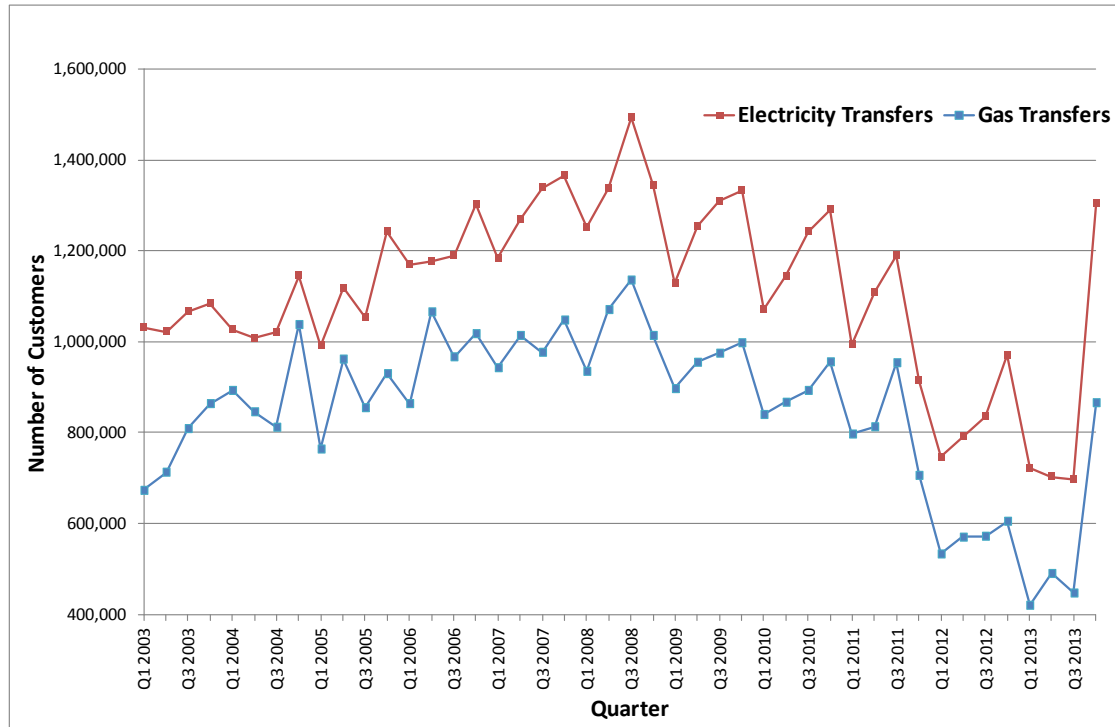
Consumers' current experience of switching

2.9. For some customers, the current arrangements in the GB market are characterised by mistakes, delays and poor consumer experiences. Our State of the Market Assessment found that switching is a hassle for consumers and the fear of something 'going wrong' during the switching process is also off-putting for many. It also found that the switching arrangements can reduce competition among suppliers by being a barrier to new entry and expansion.

2.10. Over the last decade around 4.9 million electricity and 3.7 million gas consumers switched supplier each year. However, as Figure 4 below shows, fewer

consumers have been switching in recent years, although there was a surge at the end of 2013.¹⁵

Figure 4 - Gas and electricity switching 2003 to end 2013 (Source: DECC¹⁶)



2.11. We have identified three key areas where consumers are exposed to significant shortcomings in the change of supplier process:

- Reliability of the switching process:** In many cases it takes longer than five weeks to switch and in some cases, data difficulties may lead to the switch being abandoned. There are around 55,000 erroneous transfers each year (one per cent of total switches).¹⁷ Erroneous transfers can take time and effort for the customer to resolve and are costly for the industry to manage.¹⁸ Consumers also report billing problems linked to the change of supplier process. Delayed and inaccurate billing can have a serious impact on some consumers' ability to manage their finances and frustrate others. In one in

¹⁵ As described in our State of the Market Assessment (p.27) this may reflect the recent media and political attention on retail energy prices and their increases over this period since October 2013. It is not clear whether this trend will be sustained.

¹⁶ <https://www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics>

¹⁷ An erroneous transfer occurs when a consumer has their supply switching without their consent. It can occur when a supplier picks the wrong supply point to switch, when a consumer provides the incorrect site details, when a contract cancellation is not actioned in time and where there has been mis-selling and the customer does not believe that they have entered into a contract.

¹⁸ Suppliers report that an erroneous transfer costs around £70 each to resolve. This includes the costs for the new and old supplier but excludes any costs incurred by the customer. This equates to an industry cost of around £3.5m which will impact on consumer bills.

every ten switches there are problems with the change of supplier meter read that suppliers have to fix so that consumers can be accurately billed.

- **Length of the switching process:** When these processes operate in accordance with current industry rules, switching takes around five weeks.¹⁹ This will reduce to 17 days by the end of the year. However, our analysis of information provided by the large domestic suppliers for the period Q1 2012 to Q1 2013 show that in gas more than 80 per cent of switches took more than five weeks. For electricity, the figure was 20 per cent.
- **Complexity of the switching process:** The switching process is complex and this can contribute to delays, errors and costs. The processes are different for gas and electricity which can frustrate dual fuel switching leading to consumer complaints and disengagement. It means that it is more difficult for suppliers to coordinate their activities so that the customer switches both fuels on the same day.

2.12. We are concerned that the design and operation of the change of supplier process makes it difficult for customers to engage in retail energy markets or deters them from trying. Figure 5 summarises recent evidence from consumers on the switching process.

Figure 5 – Consumer expectations and experience of switching

Ofgem research on consumers' experience and expectations on switching²⁰

- Overall, domestic consumers said that they were most concerned about the earlier stages of the switching process, such as choosing the best deal. When asked to think about the change of supplier process, consumers said they wanted a reliable and accurate transfer, and for it to be as efficient and streamlined as possible.
- For some business consumers, a faster switch was felt to have benefits. However, their primary concern was for the transfer to be reliable and hassle-free. A number of businesses raised concerns about the objections process – where a supplier can block the switch in certain circumstances.

Ofgem Customer Engagement Tracking Survey 2013²¹

- 27 per cent of consumers who have never switched, see switching as a hassle (up seven per cent from the previous year)

¹⁹ This five week period is made of contract cooling off period which can typically be up to two weeks followed by three weeks for industry processes

²⁰ We conducted qualitative research with both domestic and business consumers about their experiences and what they want from a new change of supplier process. The domestic research can be found here: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-consumer-first-panel-research-inform-ofgem%E2%80%99s-review-change-supplier-process> and the business research can be found here: <https://www.ofgem.gov.uk/publications-and-updates/non-domestic-consumers-and-change-supplier-process-qualitative-research-findings>

²¹ <https://www.ofgem.gov.uk/ofgem-publications/74756/customer-engagement-energy-market-tracking-survey-2013.pdf>

Consumer Futures' Switched On Report²²

- 13 per cent who switched or tried to switch said they experienced a problem during the switching process.
- The most common problems were closing the bill from their old supplier, delays in the process, or receiving poor customer service.
- Over a quarter (26 per cent) of those who switched in the year ending April 2012 would not do so again, with those in the poorest social groups being much less likely to consider switching again. Over a quarter of consumers who would not consider switching again said this was because they were happy with their new supplier, but more than one in five blamed the process for being too difficult or off putting.

Summary

2.13. The energy switching processes are not working in consumers' best interests. These processes are important because they drive competition and consumers' direct experience of retail energy markets. Unless the switching arrangements are changed to make them more reliable and quicker to win back consumer trust in the switching process, the market will not be as competitive as it should be, and consumers will ultimately lose out.

2.14. These benefits are difficult to quantify, but given that they relate to the overall functioning of the retail market we believe that they are significant. Improving the switching process is also central to the development of smarter energy markets. The scale of the market means that relatively modest falls in tariffs can have sizable benefits for consumers. The next chapter examines how best to unlock these benefits for consumers.

²² <http://www.consumerfutures.org.uk/reports/switched-on-consumer-experiences-of-energy-switching>

3. Options to deliver fast, reliable and cost-effective switching

Chapter Summary: This chapter assesses packages of reforms that could deliver next-day, two-day and five-day switching for consumers and the potential to centralise registration services.

Question 1: Do you agree with our impact assessment on next-day, two-day and five-day switching based on either a new centralised registration service operated by the DCC or enhancing existing network-run switching services?

Question 2: Do you agree with our proposal to implement next-day switching on a new centralised registration service operated by the DCC?

Question 3: Do you consider that fast (e.g. next-day) switching will not have a detrimental impact on the gas and electricity balancing arrangements?

Reform packages

3.1. We have identified the key elements of the switching process and have examined how they can be improved.²³ We have tested combinations of these specific reforms to meet our longer-term objective of establishing a change of supplier process that is fast, reliable and cost-effective, which improves competition and builds consumer confidence.

3.2. In deciding how ambitious we should be around switching times we have looked at the changes necessary to deliver five-day, two-day and next-day switching. The full details of the necessary changes need be developed in the next stage of this project, but the analysis in this document allows for the merits of these options to be considered. To deliver any of these packages, new arrangements would need to be developed to allow for switching to take place within the statutory cooling off period. This is discussed in a separate section at the end of the chapter.

3.3. We have assessed the potential to deliver the next-day and two-day options through a new, DCC-run centralised registration system for the gas and electricity market with common processes and data flows. We have compared this to an approach that would rely on enhancing existing network-run switching services that are run separately for the gas and electricity markets.²⁴

²³ Appendix 3 describes all of the individual reform options that we have considered.

²⁴ We have not presented an assessment of five-day switching on a new centralised registration service in this chapter. Given the scale of the investment required to centralise registration service, our view is that a switching speed of faster than five working days should be the aim. Appendix 3 shows the quantified impact of the centralising registration reform by itself.

Next-day switching

3.4. Under our next-day switching proposals a consumer could enter into a contract and be supplied by their chosen new supplier from the start of the next day. To achieve this, three key changes are needed:

- **Supply Point Register:** Upgrade communication and processing of messages between suppliers and the registration systems to near real-time (from current overnight batch processing). As explained above, this could be on existing network or new DCC systems.
- **Objections:** Introduce a central objection register, updated daily by suppliers, holding the objection status of each gas and electricity supply point. When a supplier requests a transfer, it would receive a near instant response indicating if it had been blocked or would successfully switch. As a result of our analysis of the potential costs of retaining objections, we will examine whether to retain them as a feature of the market.
- **Gas confirmation window:** There is currently a two-day gap between the end of the objection window and the switch. This would be reduced so that the objection window closed at 5pm on the day before the transfer. This would be mirrored in electricity, so a transfer request could be made the day before the requested switching date. When combined with the objections reform noted above, a transfer request could be made up to 5pm on the day before the switch.

Two-day switching

3.5. The difference between our next-day and two-day switching proposal is the approach to objections. The option chosen here is to reduce the current window for suppliers to decide if they have grounds to block the switch. It would not be necessary to invest in a new central objections register. Changes to speed up the supply point registration processing and communications and shortening the gas confirmation window would still be needed.

3.6. Under this reform package, a new supplier would be able to request a switch (e.g. on a Monday) that would have effect in two days (i.e. from the start of the Wednesday). The old supplier would be notified of the proposed switch on the same day as the request (i.e. the Monday) and would have until 5pm on the day before the transfer (i.e. the Tuesday) to send an objection.

Five-day switching

3.7. This option can be delivered without any changes to supply point registration, which can continue to run on overnight batch processing.²⁵ Neither is further change

²⁵ With some potential tightening of current performance requirements.

needed to the gas confirmation window. That window is already planned to be cut to two days later this year. The only change needed is to shorten the objection window to two working days.

Assessment of options

3.8. We have assessed each of the options against the following evaluation criteria:

- Reliability
- Speed
- Consumer expectations and future flexibility
- Efficiency of market arrangements
- Implementation risks
- Estimated costs

3.9. The better the options perform against the criteria, the more we think the option will improve consumer outcomes from the switching process, i.e. the greater the benefits.

Reliability

3.10. Reliability is primarily a reflection of the registration systems. It could be improved by enhancing existing network-run registration systems. However, for the following reasons, we strongly believe that centralising registration services will make the switching process significantly more reliable and easier for consumers:

- Existing network-run registration services were designed and built in the 1990s. These have incorporated incremental improvements. However, we believe that a more fundamental review can capture the additional benefits that modern technology can bring in terms of process efficiency, flexibility and reliable switching.
- For dual fuel consumers, aligning the gas and electricity switching processes will provide a consistent switching experience and reduce potential confusion caused by separate approaches and timescales.
- Redesigning the switching arrangements provides an opportunity to rationalise and reduce the complexity of the current arrangements. This complexity is often the root cause of delays and problems with a switch.
- Placing the switching arrangements under the control of the DCC provides an opportunity to reset the governance framework and incentivise behaviour that supports better outcomes for consumers. As a licensed party, we could take enforcement action if the quality of service did not meet required standards.

3.11. Reliability is improved both for next-day and two-day switching options where they rely on new centralised registration under the DCC. The other options would not deliver the same benefits for consumers.

Speed

3.12. Allowing a consumer to choose a new supplier and be supplied by them by the start of the next day means that they could benefit more quickly from cheaper prices, better service and new and innovative products. This may also encourage more consumers to switch. By definition, the next-day switching option performs best against this criterion.

Consumer expectations and future flexibility

3.13. Our non-domestic consumer research revealed that, whilst less of a priority at the moment, given the circumstances most non-domestic customers find themselves in while switching, non-domestic consumers expected that a 48 hour transfer could and should be possible.²⁶ When domestic consumers were asked for the optimal length of the CoS process, most opted for 2-4 weeks on the basis that they believed improvements in timing might involve a trade-off with reliability. Some (often younger, tech-savvy people, who were more confident in making purchasing decisions) argued that the switch should be completed as quickly as possible, with a few wanting an immediate/next day switch on the basis they ought to be able to take advantage of cheaper tariffs as soon as they become aware of them.²⁷ Both domestic and non-domestic consumers prioritised a reliable switch, and were keen that any improvements to speed should not be at the expense of reliability or reduce the opportunity to resolve issues such as exceptions.

3.14. Our analysis has reinforced the view that it is possible to deliver a CoS process that is both more reliable and quicker. On this basis, we believe that all of our reform options can deliver the reliability consumers have told us is important, with the next day and two day options also meeting the more stretching consumer expectations around speed.

3.15. Consumer expectations do not stay the same, and we expect them to change according to customer experiences in other sectors and the roll-out of smart meters which will allow for the consumer to interact with their energy consumption in real-time.²⁸ Because it takes time to introduce reforms like those being proposed, the design of future arrangements needs to accommodate these future needs.

²⁶ This was attributed to the opportunities afforded by smart meters, coupled with what is possible in other sectors (e.g. mobile phones). For further detail please see p23 and p30:

<https://www.ofgem.gov.uk/ofgem-publications/84908/non-domcosreportfinal181013lastandfinalforpublication.pdf>

²⁷ For further detail please see p8 and 46-48, <https://www.ofgem.gov.uk/ofgem-publications/84905/finalcospanel.pdf>

²⁸ Our domestic consumer research has shown that most participants could see the potential for a more streamlined switching process as a result of automated real-time meter readings. Once participants were

3.16. The introduction of next-day switching compares well with consumers' current experience of switching in other markets such as telecoms (one- or two-day switching) and banking (seven days).²⁹ In line with our smarter markets vision, we think consumers' expectations will increase and create demand for next-day switching. Next-day switching performs best against this criterion.

3.17. We think that a centralised registration service, with common gas and electricity architecture and governance under the Smart Energy Code (SEC), can also more efficiently adapt to future requirements than the current processes and governance, which are separate. Options involving centralised registration will help us learn from other sections. We could, for example, learn from the banking sector and design a more active role for the DCC in monitoring and managing the expected flow of data between parties, including metering agents, to ensure a smooth experience for consumers.³⁰

Efficiency of market arrangements

3.18. Making the switching arrangements simpler can reduce costs to suppliers and other industry parties. As such, it could help encourage competition and market entry and expansion. The current arrangements have evolved over time and include a number of "workarounds" which allow for errors to occur and can be expensive for suppliers to operate.³¹

3.19. Re-engineering the switching arrangements by centralising registration services under the DCC provides an important opportunity to simplify the switching arrangements. Improvements include harmonising processes and bringing together and rationalising data flows. These benefits are unlikely to be achieved by building on the existing registration systems, so options with centralisation will perform better against this criterion.

3.20. The next-day switching proposals offer more benefits to consumers as described above, but they also present additional technical challenges for market participants. For example, suppliers will want to ensure that they can load their security key³² and new tariff details on to a smart meter between 5pm and midnight

reminded of key stages of the change of supplier process and had discussed smart meter capabilities, most could see how smart meters could eventually contribute to a more accurate, reliable, and quicker change of supplier process.

²⁹ Switching supplier is also much quicker in other international energy markets where it can happen the next day in Norway, Greece, Victoria (Australia) and Ireland.

³⁰ In the banking sector, Vocalink provides a managed switching service. It actively monitors the exchange of data between parties to ensure that data flows are sent in accordance with the timescales required to deliver the seven day switching requirements. As well as providing a range of services to help banks manage the process, it also uses exception reporting to identify to banks where they are required to provide overdue data flows.

³¹ For example, suppliers told us that it costs around £70 to use industry workarounds that manage erroneous transfers and return consumers to their old supplier.

³² Before a consumer with a smart meter transfers, it is preferable for that meter to have been loaded with the new supplier's security key. This allows the new supplier to have access control and, for example, to

for electricity and 6am in gas. For the two-day and five-day options, suppliers would have more time to send these messages to the meter.

3.21. We are requesting views on any detrimental impact that faster switching may have on the ability of losing suppliers to balance their gas and electricity positions and any wider implications for balancing and the wholesale market. We understand from our initial discussions with stakeholders that this is unlikely to be a concern. We discuss this issue in more detail in Appendix 3, in particular in relation to gas balancing and the reduction in the gas confirmation window.

Implementation risks

3.22. The next-day and two-day options, whether they are built on new centralised services or enhanced existing systems, will need careful planning and management. It will require input across all stakeholders in the industry to identify requirements and to undertake the required design, build, testing and implementation. These proposals would require significant industry resource to implement and we recognise that there are likely to be competing priorities over this period for the DCC and suppliers with the roll-out of smart meters.

3.23. Options involving centralising registration, because it involves transferring responsibility for registration from network companies to the DCC, will require major changes to industry codes. For example the SEC, Master Registration Agreement (MRA) and Uniform Network Code (UNC).

3.24. The five-day option, which would continue to rely on overnight batch-processing, would require more limited changes and would be more similar to the arrangements with which suppliers already interact. Implementation risk is therefore lower, although the associated benefits would be likely to be significantly lower than options involving centralising registration.

Estimated costs

3.25. We have worked with the industry to quantify the direct costs to them of our reform packages. Where market participants believe that a specific reform can deliver cost saving, for example with better data quality reducing exception handling costs, these have also been captured.

3.26. The direct costs of the reforms are only part of the picture, and in this document we have described the wider benefits that we believe our reforms will bring. In particular, the cost analysis below does not capture the direct benefits for consumers of our proposals or any wider competition benefits. We consider the

configure the meter with its tariff details.

Moving to reliable next-day switching

benefits of next-day switching on a new centralised registration service will significantly outweigh the identified costs.

3.27. The first chart below shows the estimated costs of the reform packages, in present value terms over the period between 2015 and 2030. The second and third show the investment (capex) costs and the ongoing operational costs (opex) for each of the reform packages. This analysis is based on the best information available to industry participants over the past six months. Our key conclusions are:

- The costs of upgrading the registration systems and developing new standards for speed and reliability are relatively low, in particular compared with the direct and indirect benefits of faster and more reliable switching arrangements.
- The ongoing operational costs for all the options are broadly in line with the costs of operating the current five-week switching arrangements.
- Like for like reform packages involving centralising registration are likely to be cheaper than where existing network-run systems are enhanced. One-off investment costs are higher, but ongoing operational costs appear lower.
- The current next-day switching option is likely to be more expensive than two-day switching. As discussed below, this is driven primarily by the costs of maintaining an objections register.
- Five-day switching is likely to be the least expensive reform, but this reflects the limited changes required and associated ambition.

Figure 6: Incremental NPV costs of reform packages

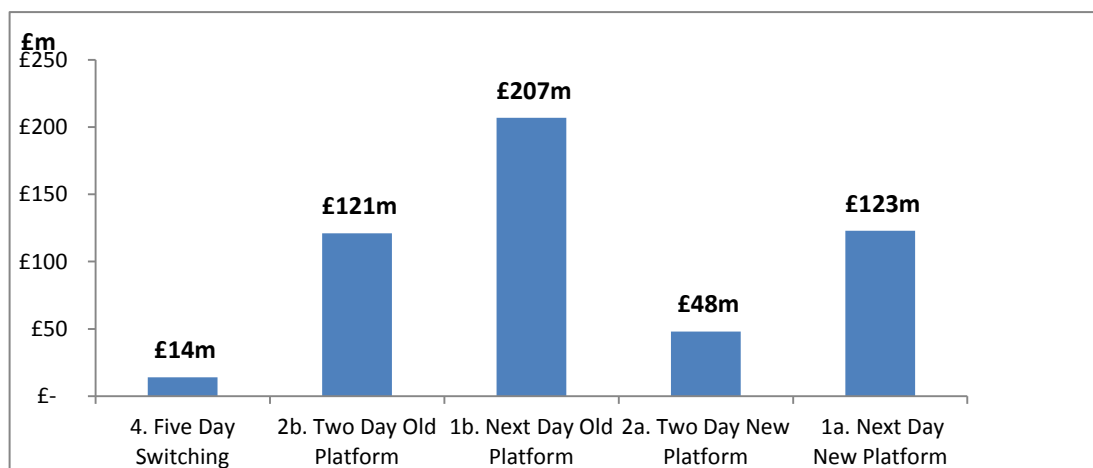


Figure 7: Average investment costs of the reform packages for a dual fuel consumer

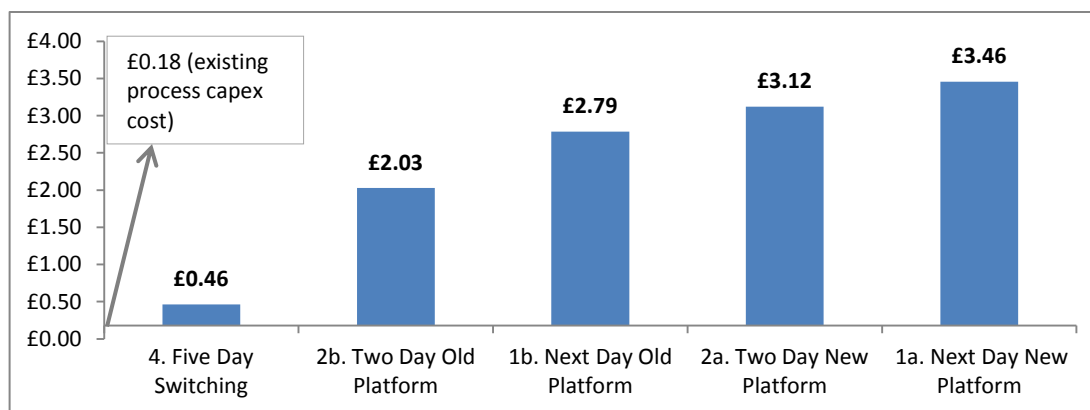
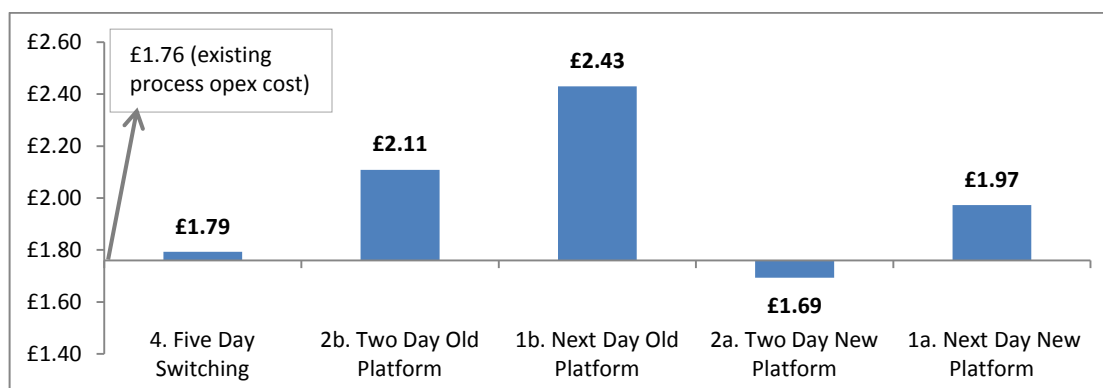


Figure 8: Average ongoing annual costs of the reform packages for a dual fuel consumer



3.28. Our analysis shows that the objections process is the main driver of additional costs for next-day switching. Given these costs, we intend to review suppliers' ability to block consumer switching, which could bring down the costs of next day switching versus two-day.³³ Our aim is to determine the role of objections in the domestic and non-domestic retail energy markets by the start of 2016. The outcome could then be incorporated into the next phase of this project with any necessary modifications to industry codes made as part of this process during 2016.

³³ Our Net Present Value (NPV) analysis which looks at the impact of implementing and running the new switching arrangements between 2015 and 2030 suggests that this would cost nearly £100m. For an average dual fuel consumer, this would mean a one off investment cost of around £0.85p and an ongoing annual operating cost of £0.30. We recognise that if objections were removed then there may be additional costs incurred elsewhere. For example, suppliers would seek to manage debt through other mechanisms.

Conclusions – preferred reform package

3.29. We propose to radically overhaul and re-engineer the switching arrangements and put in place a new, centralised registration service under the DCC that can deliver next-day switching. We believe there is a very strong rationale, based on the transformative effect this would have on the operation of a competitive retail market. The table below summarises our assessment:

Next-day switching (Centralised registration under the DCC)	This option is likely to provide the most benefits to consumers. Redesigning registration systems would improve reliability and centralisation offers opportunities for suppliers to make efficiencies and improve reliability of the system. Initial cost assessments suggest it would be more cost-effective than network-led registration systems, and running costs are not materially different to current systems.
Next-day switching (Network-run registration)	While this option is likely to meet current and future consumer expectations on speed, it is unlikely to improve the reliability of the system to the same extent as centralising registration. In addition, it looks less attractive on cost grounds.
Two-day switching (Centralised registration under the DCC)	This option offers the same reliability and efficiency benefits as next-day switching with centralised registration. However, costs per customer are broadly similar to next-day and this option is less likely to meet future consumers' expectations.
Two-day switching (Network-run registration)	This option is less likely to deliver improvements in reliability and looks to be more expensive than its centralising counterpart.
Five-day switching	While the one-off investment costs are likely to be lower, the ongoing operational costs are broadly the same as the other reform options which we consider would offer more benefits to consumers. This option is therefore unattractive.

3.30. Our assessment shows that, for a relatively low initial investment, the existing systems and processes developed in the late 1990s could be replaced with reliable, efficient and flexible arrangements that support dual fuel switching and can respond quickly to future market requirements. Moreover, placing the switching arrangements under the control of the DCC provides an opportunity to improve the governance framework and incentivise behaviour that supports better outcomes for consumers.

3.31. We consider that the benefits will significantly outweigh the identified costs. As described in Chapter 2, fast and reliable switching will help to increase consumer engagement which can increase competitive pressure in the market (reducing overall prices, improving service standards and driving innovation) as well as leading to direct benefits for consumers.

Coverage – availability of improvements for all consumers

3.32. For some consumers there may be practical reasons why a very fast switch is not possible, even once the above reforms are implemented. We have identified the following two specific instances:

- For consumers with traditional PPM meters, additional time may be required for the new supplier to send a new top-up key or card. A new supplier is likely to want the consumer to have received the key or card at the time of the switch so that the consumer can use it to top up their meter.
- A longer switching period may also be chosen for some business consumers so that a switch can match up with the end of their existing contract. It may also not be practical for very large volume consumers or those with complex portfolios.

3.33. Our initial view is that any disparity in the switching speeds is likely to be a transitional issue for traditional PPM customers as smart meters are rolled out.³⁴ For business consumers, we consider that it is important for them to have the choice of faster switching, even if some opt for a longer process.

Cooling off arrangements: European requirements

3.34. Under European law, domestic customers will typically have a 14 day cooling off period when they enter into a contract with a new energy supplier.³⁵ To realise the above ambition, the switch needs to take place during the cooling off period. Current industry processes do not allow for this to happen and in practice suppliers do not transfer a customer until after the cooling off period expires.

3.35. To switch faster, consumers must be confident that they can cancel their contract with the new supplier after the switch if they are not satisfied. If a consumer switches and then cancels their contract, we believe that they should be returned to their previous supplier on the contractual terms that they would have been on had they not switched. Energy UK is currently examining how this could work. We also need to undertake further work to assess the implications for consumers.

3.36. We have not assessed any of these reforms in this document but if such changes are significant, we think they would be made more efficiently if they were part of a new centralised registration service. We aim to update our assessment with any new information when we publish our decision around the end of this year.

³⁴ Smart meters are able to operate in both credit and PPM mode. Suppliers are working towards a range of more flexible and consumer friendly top-up methods linked to this technology.

³⁵ Implemented by new rules in place for June 2014: The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/265898/consumer-contracts-information-cancellation-and-additional-payments-regulations-2013.pdf

4. Metering reforms

Chapter Summary: This chapter describes an additional reform proposal – a centralised metering database – that could improve switching arrangements for electricity consumers with traditional and AMR meters.³⁶ We do not propose to include a new centralised metering database as part of our reform package for change of supplier. We discuss here how we have reached this view and ask for your thoughts.

Question 1: A central electricity metering database is not currently included within our proposed package of reforms. Do you agree it should be excluded?

Question 2: If a central electricity metering database is included within our proposed package of reforms, do you consider that it should cover both AMR and traditional meters? Do you think that there would be any benefit in extending the central electricity metering database to cover smart meters?

Problem

4.1. When a consumer switches supplier, a meter reading is obtained or estimated.³⁷ This read is used by the old supplier to issue a final bill and to start the consumer's account with their new supplier. It is also used to allocate settlement and network charges between the suppliers.

4.2. The current arrangements for processing an electricity meter read can constrain the speed of the transfer. They can also make the transfer less reliable, leading to delayed or inaccurate consumer bills. Metering agents play a key role in processing the change of supplier meter read. To process a read, metering agents must first be appointed and data must then be exchanged between the old and new suppliers' metering agents.³⁸ These processes currently take a long time.

4.3. Under the current rules, it can take up to 27 days for the supplier to appoint its metering agents for a new customer, and for data to be passed from the old supplier's agents to the new supplier's agents. Suppliers tend to build extra time into the switching process, delaying the date of the transfer, to give them the best

³⁶ It was the view of COSEG and the COSEG metering subgroup that for the largest consumers – those who are currently settled half hourly in electricity – the existing processes work relatively efficiently and do not require reform. For further detail please see: <https://www.ofgem.gov.uk/ofgem-publications/86793/meteringsub-groupminutes.pdf>.

³⁷ A supplier can appoint a meter reader to take a physical read, ask the customer to provide a reading or, if there is a smart meter or AMR meter, obtain a read remotely from the meter.

³⁸ The new supplier will appoint metering agents to obtain/estimate the read, validate it, and turn the information gathered into data that can be used in settlement. To allow this processing, the new supplier's metering agents must first obtain the metering technical details (MTDs) and consumption history from the old supplier's metering agents.

chance of determining a change of supplier meter read by the eighth working day after the switch.³⁹

4.4. Under new requirements (the '7WD agent requirements') the maximum timescales for appointing agents and exchanging data, will be reduced from 27 to seven working days. This will be implemented in November 2014.⁴⁰ This should significantly improve the new supplier's ability to determine a change of supplier meter read within eight working days. It should also reduce the need to build time in ahead of a transfer.⁴¹

4.5. Smart meters should further reduce concerns about dependencies on agents, because they allow suppliers to access the data they need directly from the smart meter. There are already changes in progress to make the most of these capabilities.⁴²

The case for further intervention

4.6. While planned changes to the metering arrangements and the roll-out of smart meters will address many of the issues for domestic customers in the medium to long-term, some changes to working practices may be needed to make next-day switching possible. This is particularly true for customers who have not yet had smart meters installed and for non-domestic customers with advanced meters:

- If suppliers cannot be sure that an agent will accept an appointment request to provide metering services for a traditional/AMR supply point, they may be unwilling to offer very fast transfers for customers with these meters. This is because if a supplier has offered a next-day transfer, but an appointment request is subsequently rejected, the supplier may not be able to meet its obligation to have a meter read ready within eight working days of the switch.⁴³
- Stakeholders have highlighted the importance (for smart, traditional and AMR meters) of the new supplier having a Meter Operator appointed for the supply

³⁹ This is a requirement set out in the BSC. Its aims to allow the meter read to be sent to the old supplier's agents by the following day (i.e. the ninth working day after the switch). It will then be used by the old supplier for customer billing and meeting its own settlement requirements.

⁴⁰ These arrangements are for Non-Half Hourly (NHH) customers only, including domestic and most small to medium sized businesses. See <http://www.elexon.co.uk/change-proposal/cp1405/>. If P272 is accepted and profile classes 5-8 are settled on a half hourly basis, then there could be a need to make further changes to ensure that profile classes 5-8 still benefit from these faster timelines.

⁴¹ For example, where a supplier transfers a customer on a next-day basis, the supplier could appoint agents and require them to exchange data in the seven days following the transfer, in time to have a read by the eighth day.

⁴² At our request, industry established electricity and gas workgroups to develop process changes to realise these benefits. Good progress is being made across both fuels, and a modification request has now been raised to the BSC (BSCP302) for the electricity market.

⁴³ Please note, the reforms for smart meters aim to decouple agent appointment and information exchange from the change of supplier process, so delays in these processes should not be a barrier to next-day switching for smart meters.

point when it transfers. This is for safety reasons in case a meter needs to be worked on or exchanged at short notice.

4.7. In our view, both of these problems can be solved by the new supplier without making any more reforms. The new supplier needs to make sure their agents can be appointed quickly, and only reject appointment requests in extraordinary circumstances.⁴⁴ We believe that many suppliers already contract in this way, but it will be increasingly important in the context of next-day switching. For some, this may mean a shift in the way that existing agent appointment data flows are used and understood.

4.8. However, there is another reform option that could be added to the options assessed in the previous chapter as part of a package of measures to improve the switching arrangements. This is to introduce a central electricity metering database that could further improve the change of supply meter read arrangements for traditional and AMR-metered electricity consumers. This option is described below.

Central electricity metering database

4.9. This option would involve creating a new central electricity metering database to hold the data needed by a new supplier and its agents on change of supplier.⁴⁵ This would mirror the approach in the gas market. We have considered this reform proposal against the evaluation criteria in Chapter 3. Our assessment is below.

Reliability and speed

4.10. For AMR and traditional meters, a central database would mean suppliers and their agents are less dependent on their competitors during the change of supplier process. A central store of information would reduce the agent-to-agent hand-offs, with fewer opportunities for data to be corrupted or for other errors to creep into the process. We therefore think it would improve reliability and speed.

4.11. However, for a central database to support reliable switching, its data must be complete and accurate. Assurance measures such as incentives, obligations and monitoring will help ensure the data is of high quality.

⁴⁴ This combination of arrangements should enable suppliers to send the appointment flow (and any accompanying flow to update central systems) as late as the day of the switch and still have confidence that they will have agents in place to discharge their duties. In the event that an agent rejects an appointment, this will be because the supplier has failed to appoint the appropriate agent/ provide contractually for that agent to accept. A supplier would be in breach of any relevant rules/regulations which necessitate having an agent in place. Industry codes could be modified to strengthen these requirements if necessary.

⁴⁵ This includes the Meter Technical Details (MTDs) and the supply point consumption history. Both of these data items are required for both traditional and AMR meters. However, if P272 is accepted and profile class 5-8 meters go half hourly, we understand that it would no longer be necessary to hold consumption history centrally for these meters. Where consumption history is held, we understand that it need comprise only of the last Estimated Annual Consumption (EAC) and Annualised Advance (AA).

Efficiency of market arrangements

4.12. A central metering database would make it simpler and easier for market participants to access metering data. It also brings the structure closer into line with the structure of the gas market, where metering data is held centrally by Xoserve.

4.13. There may be some advantages to including smart meters within a central electricity metering database. This could also improve consistency with the gas market and provide data to the new supplier on change of supply if there is a communications failure. This approach may however increase costs.⁴⁶

Consumer expectations and future flexibility

4.14. Because smart meters are being rolled out, a central electricity metering database will only bring material benefits for traditional meters until 2020, at which point the roll-out of smart meters is due to be complete.⁴⁷ Implementation is not envisaged before 2018, so a central metering database could support the change of supplier process for traditional metering for around three years.

4.15. As discussed in Chapter 3, next-day switching may not be practical for traditional PPM customers (because of the need to send customers a new key). As such, a metering database may have a more limited benefit for these consumers in the speed of the transfer, although there could be some improvements in terms of reliability.

4.16. A metering database could play an enduring role for AMR meters installed in larger business premises or those small and medium sized premises that are captured by the smart meter roll-out licence exemptions.⁴⁸ Our consumer research indicates that next-day switching is less attractive for many business customers as they normally plan their switch in advance, based around the end of their fixed term contract. Nevertheless our research suggested that for some non-domestic customers, a faster switch could have benefits. As such, a metering database may not be needed to meet the majority of these consumers' expectations in terms of speed, but it may have some reliability benefits.

⁴⁶ We note that, in the absence of a central metering database for AMR and traditional meters, there will be one process for obtaining metering data for electricity smart customers and another for obtaining metering data for AMR/traditional/smart customers who have lost communications. If a central metering database is implemented then this would add a new process for AMR/traditional meters. One solution to reducing the number of different processes could be to hold metering data centrally for smart meters as well so that it was available if there was a communications failure.

⁴⁷ There may be a limited number of supply points still without smart meters beyond 2020, and in these instances there could be an enduring benefit to including these supply points within a central metering database.

⁴⁸ One exemption allows such premises to have an advanced meter, provided it is installed prior to 6 April 2016. See SLC 39 of the electricity supply licence and 33 of the gas supply licence ('Smart Metering System – Roll-out, Installation and Maintenance') set out the exemptions, which apply to "designated premises", which roughly translates as small and medium sized premises.

4.17. We think that a central metering database should be flexible enough to accommodate any future decision on the centralisation of data processing and data aggregation functions.⁴⁹ It would also provide an opportunity to review the data that should be held centrally to facilitate effective competition.⁵⁰

Implementation risks and estimated costs

4.18. We have considered the impacts of providing a central metering database by enhancing existing systems⁵¹ or as part of a new centralised registration service.

4.19. Developing the governance and assurance framework and putting information into the database would be challenging. There may be some advantages in incorporating this within wider changes to centralise registration services as this process will also need to consider these matters. But we recognise that extending the scope of the changes increases the complexity and risk of successful delivery.

4.20. For a database covering traditional and AMR meters as part of a central registration system, the additional⁵² investment cost per electricity consumer is £0.13 and the ongoing annual costs would be £0.15. If the database was limited to AMR meters, the investment cost would be £0.12 per electricity customer and the ongoing annual costs would be £0.17.⁵³ In NPV terms (2018-30), the additional costs of including a metering database would be around £45m. The costs may appear small, but the benefits offered by the database also appear limited, as discussed above.

4.21. We recognise that the 'AMR only' results appear perverse in that the ongoing cost is higher than for a combined database. The data provided to us by suppliers suggested that efficiency gains could be made as a result of following consistent processes for dealing with metering data across both meter types. However, we remain concerned by the high costs provided to us for an AMR metering database relative to the number of AMR meters. We also note that there have been difficulties in determining an accurate counterfactual scenario for metering databases for one meter type only. We welcome further input from industry on the costs and assumptions made.

⁴⁹ Please see p20, <https://www.ofgem.gov.uk/ofgem-publications/87053/electricitysettlementlaunchstatement.pdf>

⁵⁰ For example, we would expect that the level 3 reconfiguration password for AMR meters should be included as part of any centrally held MTDs. Currently, this is provided by the old supplier's agents and this can be done after the switch has taken place. Access to the password is important if the AMR meter needs to be reconfigured.

⁵¹ The options considered included; extending the Meter Point Administration System (MPAS) or the Electricity Central Online Enquiry Service (ECOES) as well as creating a stand-alone metering database.

⁵² I.e the costs over and above the existing change of supplier meter read costs

⁵³ These costs may in practice be targeted at those AMR customers included within the scope of the database.

Summary

4.22. By reducing the dependency on the old supplier and its agents and improving access to data, a central metering database could make the change of supplier meter read process faster and remove the need for suppliers to build in time to the overall switching process. By limiting the number of data hand-offs between parties and potential for handling errors, it could also improve data quality and therefore reliability.

4.23. But because we believe the problems relating to metering agents can be resolved using the current arrangements (once amended later this year) and because the benefits will be limited in time (as smart meters are on the way), we do not propose to include a new centralised metering database as part of our reform package for change of supplier.

4.24. We welcome views on whether operating the electricity metering market after implementing 7WD agent requirements might constrain our ambition for reliable next-day switching. We also welcome views on whether including a centralised electricity metering database within our lead reform package would benefit consumers.

5. Implementation approach and timescales

Chapter Summary: In this chapter we set out how our proposed reform package could be implemented including guiding principles, issues and risks and the key implementation stages. We describe the potential to use our Significant Code Review (SCR) powers to coordinate the required changes to industry codes and licence obligations. We also review options to support the next stage of the project which is to design the detailed business rules and identify the changes to industry codes and licences required to give effect to our proposals.

Question 1: Do you agree with the implementation principles that we have identified?

Question 2: Do you agree that Ofgem has identified the right risks and issues when thinking about the implementation of its lead option (next-day switching with centralised registration)?

Question 3: Do you agree that we have identified the right implementation stages?

Question 4: What do you think is the best way to run the next phase of work to develop the Target Operating Model for the new switching arrangements?

Question 5: What do you think are the advantages and disadvantages of the DCC being directly involved in the design of a Target Operating Model for the new switching arrangements, and the development of the detailed changes required?

Question 6: Do you agree that an SCR is the best approach to making the necessary regulatory changes to improve the switching arrangements?

Question 7: Do you agree with the proposed implementation timetable? Are there ways to bring forward our target go-live date?

5.1. Delivering reliable next-day switching on a new industry platform will require a major industry change programme. The existing industry processes and data flows would need to be fundamentally redesigned and rebuilt. In this chapter we seek views on how best to deliver our proposed reform package. In particular, we seek views on:

- How best to secure the timely development of the Target Operating Model (which would describe the detailed blueprint for our proposals) and develop the changes required to the rules and obligations.
- Using our SCR powers to require industry to raise the required modifications to industry codes that would give effect to our proposals.
- Requiring suppliers and network operators to support the timely delivery of the new arrangements.

5.2. To oversee a programme of this scale, further work is needed to develop an appropriate governance structure. To inform our thinking (and following our review of responses to this consultation), we intend to discuss implementation options with the industry in Q3 2014 before we publish our decision at the end of the year.⁵⁴ This will include the potential for new licence obligations on the DCC, suppliers and networks to support the next phase of the project.

Implementation principles, issues and stages

Implementation principles

5.3. We have identified the following draft principles to guide us during the implementation of our proposals:

- **Principle 1 – Focus on consumer outcomes:** Getting the best outcome for consumers must be at the heart of the new switching arrangements. The governance structure for the implementation project should be designed with this in mind and decisions should take into account the cost, risk and timing of changes for consumers.
- **Principle 2 – Implement as soon as possible:** We have targeted a go live date of the end of 2018. We also want to explore how this date could be brought forward without compromising the reliability of the arrangements.
- **Principle 3 – Make best use of industry expertise:** To ensure that implementation is successful and is as efficient as possible we must make the best use of skills across the sector. It is clear that for a project of this scale, the close involvement of both Ofgem and industry parties will be necessary. In particular, the implementation and governance arrangements will need to take account of market developments. This means it will be important to understand the views of new suppliers and TPIs on how the market requirements might change. However for each of the phases, the mix of expertise and experience required will differ. Different approaches to governance and leadership may also be appropriate for each of these stages.
- **Principle 4 – Identify and manage risks:** This is an important project for consumers both in terms of the benefits that they can achieve as well as the consequences if there are problems. Robust arrangements must be in place to identify and manage implementation risks. Our initial views on the key risks and issues are discussed below.

⁵⁴ We want to use our Smarter Markets Coordination Group (SMCG) for this discussion. SMCG is an industry group that we have established to provide strategic guidance on the projects that make up our Smarter Markets Programme.

Implementation issues and risks

5.4. The key implementation issues and risks that we have identified, and which must be carefully managed are:

- **Cost over runs:** The cost of our proposals, described in Chapter 3, is our best estimate based on industry data. We recognise the risk that actual costs may differ from our projections. We must keep a careful watch to ensure that the arrangements are delivered in a way that best meets consumers' interests.
- **Risk of delay:** This is a complex project that will need to be carefully managed to keep it on track and maintain momentum. We need to make sure that there are appropriate governance structures and, where needed, appropriate obligations and/or incentives to make sure it delivers on time.
- **Reliable transition to new arrangements:** There could be risks for consumers when the industry moves to the new switching systems and processes. We must fully understand, manage and mitigate the potential impacts on consumers' experience in the market and the level of service that they receive.
- **Competing industry priorities:** Other industry projects will also be taking place at the same time. We will need to ensure that sufficient resource and attention is given to our switching reforms. We will need to balance this and make sure that the DCC, and other parties, are not overstretched in meeting their other obligations to the detriment of consumers.⁵⁵

Implementation stages

5.5. We have identified three key implementation stages that will follow the current policy development stage. These are summarised below along with our draft high level project timetable⁵⁶ (see Figure 9).

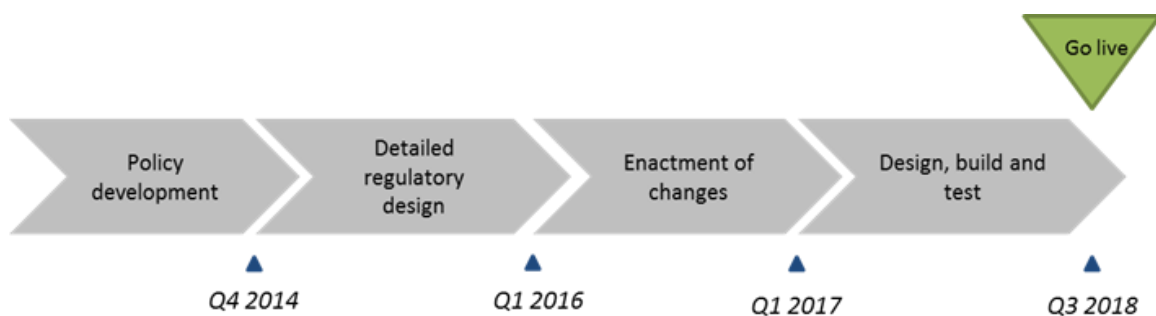
- **Stage 1: Detailed regulatory design:** this will involve designing a Target Operating Model for the new switching arrangements and the associated business processes to support the model. The necessary rights and obligations for all parties in the new switching service will need to be defined and the associated changes to licences and industry codes drafted.

⁵⁵ We have identified two main examples of where we will need to understand the impact of our proposals on the successful delivery of other work programmes and outcomes for consumers; these are the roll-out of smart metering and Project Nexus. Project Nexus aims to introduce new gas settlements and IGT registration arrangements by end 2015.

⁵⁶ This timetable is based on an approach where Ofgem uses its SCR powers and the DCC leads the development of the Target Operating Model. Were different implementation options chosen then this may impact on the timing of each stage.

- **Stage 2: Enacting changes to the regulatory framework:** once the new elements of the regulatory framework have been developed, then wholesale changes will be needed to existing industry codes and licences to bring them into force.
- **Stage 3: Design, build and test:** Once the regulatory design is complete, the detailed IT specifications will need to be developed and solutions procured. An industry-wide testing strategy will need to be developed to ensure the new systems work reliably before they are brought into operation and existing systems decommissioned. A “go-live” or launch strategy will need to be developed and executed as part of this phase.

Figure 9: High-level project timetable



5.6. In the remainder of this chapter we examine how each of these stages could be delivered. We set out our current thinking on delivery in the context of our draft implementation principles and the key risks and issues that we have identified. While the stages have been shown as sequential steps, we are interested in views on whether these steps could be run concurrently.

Detailed regulatory design (stage 1)

5.7. This first stage would develop and document, at a granular level of detail, the design for the new centralised registration database and how the overall switching process should work. This blueprint is known as the Target Operating Model. The changes to industry codes and licences needed to give effect to the Target Operating Model will need to be identified and drafted.

5.8. The key expertise and experience necessary in this phase of the project are in business process redesign and documentation and the drafting of regulatory changes. Involving IT specialists, those with experience of major IT system integration projects as well as business process and regulatory experts at an early stage could also help ensure a robust and practical Target Operating Model and associated legal obligations. Access to legal expertise will also be important.

5.9. Our starting position is that it is important for Ofgem to oversee the detailed design of these reforms. This will ensure consumer outcomes are protected. Given the range of interests in the switching arrangements, including consumers, networks,

small and large suppliers, TPIs and the DCC, a collaborative approach needs to be taken.

5.10. However, we recognise that while Ofgem is well placed to assess trade-offs and make independent judgements, free from commercial considerations, we do not have the in-house expertise in business process redesign to develop the Target Operating Model. We have considered a range of options to access this expertise in the next stage of the programme. We welcome views on the advantages and disadvantages of the approaches discussed below.

5.11. One option is to mandate the DCC to develop the Target Operating Model and draft regulatory changes and submit this to Ofgem for our consideration. We see some benefits to this approach:

- DCC will be taking on responsibility for running the new registration services underpinning next-day switching, so there is logic to them to it being involved in the design of these systems.
- The model adopted for the DCC, as a thin contract management entity, allows it to expand to take on additional work and shrink again once this has been completed. The DCC was appointed as a contract management specialist, so should be well placed to efficiently manage any contracts for this work.
- DCC is subject to a price control, which would give Ofgem oversight of the costs associated with this work. More generally, giving a role to a single licensed entity provides oversight for the timely completion of the work.

5.12 If we chose this route, we would expect the DCC to contract externally for this project management role. This is important because their existing expertise needs to remain focussed on the set-up of their smart meter communications system. Notwithstanding this, we recognise the particular risk of distracting the DCC from establishing its systems for the roll-out of smart meters.

5.13 Another option considered is for Ofgem to place obligations on other licence holders or seek assurances from industry groups that this work would be taken forward by them. While seeing industry take responsibility for the changes is attractive, we are less confident that this approach will provide timely outcomes. In addition, because there is no single licensed party that Ofgem could hold responsible for delivery, there is a more limited ability to keep the costs and overall direction of the work under control.

5.14 A third approach considered is for Ofgem to bring in the additional expertise needed in house or to run a competitive process to award the work to develop the Target Operating Model to a third party. While this would allow for more direct control of the development of the Target Operating Model, there are cost implications which could limit our ability to access the full range of necessary expertise for this work.

5.12. We recognise that the interests of industry parties may not always align with those of consumers. To help facilitate the development of good quality and timely proposals we are also seeking views on requiring suppliers and network providers, through new licence obligations, to take all reasonable steps to support the development of the detailed business rules and code modifications.

Enactment of changes (stage 2)

5.13. Once the Target Operating Model has been drafted, our proposed reform package will require modifications to be made to the existing legal framework. This will include licence conditions, the existing industry codes that support the switching process and the SEC where the new rules are expected to be placed. Our aim is for the changes to industry codes and licences to be made by Q1 2017.

5.14. Ofgem would need to make any necessary licence changes to introduce the new arrangements. However, there are three options for enacting the necessary code changes:

- A **Significant Code Review**, led by Ofgem. This would use powers available to make a coherent package of code changes across multiple codes. This process is currently being used to deliver significant changes to electricity and gas balancing to sharpen incentives on suppliers to balance. Any associated licence changes would be made by Ofgem in the normal manner.
- An **industry-led process** using normal governance processes, supported by targeted licence obligations imposed by Ofgem on industry parties to deliver the reforms. For example, a high-level, outcome-based licence requirement around switching could be introduced (e.g. 'Next-day switching must be available to all consumers from 2018 onwards'). This would be similar to the model used for the introduction of new arrangements to tackle electricity theft.
- **Secretary of State using powers** to make or direct changes. During this consultation phase we will discuss the scope of any such powers with DECC.⁵⁷

5.15. Our initial view is that we should use our SCR powers.⁵⁸ An SCR allows us to direct the industry to propose changes to industry codes to give effect to our policy proposals which we would then approve or reject.⁵⁹ The SCR process also gives us

⁵⁷ The Secretary of State has certain powers under S.88 of the Energy Act 2008 to make changes to licences and industry codes. He can also direct the DCC, under SLC15 of its licence, to make the changes necessary to centralise registration services.

⁵⁸ Following the conclusion of Ofgem's Code Governance Review Phase 2 (<https://www.ofgem.gov.uk/licences-codes-and-standards/codes/industry-codes-work/code-governance-review>), SCR powers are now applicable to a wide range of codes. In relation to the SEC, because it is still in a transition phase, only urgent or fast track mods can currently be raised. The transition phase will end at the date designated by the Secretary of State for the Completion of Implementation, and by 31 October 2018 at the latest.

⁵⁹ We would expect to take account of the Target Operating Model and any draft changes to the regulatory framework identified during Stage 1 of the implementation programme when making an SCR Direction.

greater control when seeking to manage changes to multiple industry codes and licence obligations. This approach is also best able to address the lack of incentives that some industry parties may have to develop and assess any code modifications as a coherent package and progress this work in a timely manner.

5.16. We have assessed the change of supplier project against our published criteria launching an SCR.⁶⁰ Our view is that the change of supplier project meets our criteria in the following ways:

- The issue is significant in relation to our principle objective to protect the interests of existing and future consumers and our duty to do so wherever appropriate by promoting effective competition. The right of a consumer to switch their energy supplier lies at the heart of the competitive retail market, and we believe significant improvements are needed to the current arrangements.
- An SCR is the only way we can achieve the coordination required across the broad range of industry codes. An SCR will also allow us to best coordinate changes to industry codes and licences.

5.17. Licence obligations can be used, as an alternative to an SCR, to require a policy outcome to be delivered. If this option were pursued, industry would have to work together to develop any code changes they deem necessary to allow them to comply with the requirement in the licence. However, we are concerned that this approach is not appropriate for delivering the radical reforms we are proposing. In order to deliver our outcome at least cost to consumers, and in such a way that consumer interests are protected, we think there is likely to be a need for greater coordination over changes and a more detailed specification given on how they should be achieved.

SCR objective and scope

5.18. We propose that the central objective of any SCR should be to deliver reliable next-day switching for all customers on a centralised registration service operated by the DCC and governed by the SEC. This would support the overall objective of the project to deliver a change of supplier process that is fast, reliable and cost-effective which will facilitate competition and build consumer confidence.

5.19. We need to consider when to begin an SCR process if we conclude that this is the most appropriate delivery route. Our initial view is that it would need to start alongside the regulatory design phase of the project and it could be launched as early as the end of this year, alongside our decision document.

⁶⁰ Published guidance on our approach to significant code reviews may be found here: <https://www.ofgem.gov.uk/ofgem-publications/61740/guidanceinitiating-and-conducting-scrsfinal-draft110810.pdf>

5.20. Our current view is that the scope of the SCR should be defined by our chosen reform package. As such, subject to consultation, we intend to include our proposed reforms described in Chapter 3 to the supply point registration service, objections process, gas confirmation window, cooling off arrangements as well as any other changes required to give effect to the objective of the SCR.

Design, build and test (stage 3)

5.21. Our aim is for the design, build and testing of the new switching arrangements to be completed so that they go live by Q3 2018 at the latest. By this stage in the project, industry will need to be playing a more active leadership role. They will be responsible for developing their own IT systems and to ensure they are ready to support multi-party testing.

Summary

5.22. Implementing the reforms proposed in this document will require a large cross-industry programme. We have set out three stages as providing a structure for this programme and have developed draft principles to guide us during the implementation of our proposals. We believe that it is critical to the success of the programme that Ofgem oversees this work and ensures that the process for the movement between each stage is smooth and effective.

5.23. In relation to the design phase of the work, our initial view is that Ofgem oversight is necessary, but that the DCC could be involved in the detailed work associated with developing a Target Operating Model and identify the changes needed to the regulatory framework by Q1 2016.

5.24. In relation to enacting any regulatory changes, we welcome views on launching an SCR at the end of this year with a view to consulting on a direction in Q1 2016 so that the regulatory changes can be finalised by Q1 2017. We welcome views on the potential scope of any SCR and any alternative options for delivering our proposals.

5.25. Overall, we recognise the benefits of implementing our proposals as soon as possible for consumers and we welcome views on whether our high-level timetable strikes the right balance with the risks of implementing this significant rebuild of the industry's IT systems and business processes. The overall ambition is for next-day switching to be introduced in 2018 at the latest. We would encourage industry to seek ways to shorten this time period (across all three implementation stages), so that consumers can benefit from these the new arrangements as early as possible. In particular, we welcome views on whether elements of the three stages could be run concurrently.

Appendices

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2	Change of supplier process	See separate document
3	Detailed analysis of reform options	As above
4	Detailed approach and methodology	As above
5	Detailed results	As above
6	Switching experience in other markets	As above
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Appendix 1: Consultation Response and Questions

1.1. We would like to hear your views on any of the issues in this document

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter and which are replicated below.

1.3. Responses should be received by 11 August 2014 and should be sent to:

Andrew Wallace
Smarter Markets
Ofgem
9 Millbank
London
020 7901 7067
Email: smartermarkets@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Once we have considered the responses to this consultation, we intend to publish a decision notice by the end this year setting out our policy proposals and how these should be implemented.

1.7. Any questions on this document should, in the first instance, be directed to Andrew Wallace using the above contact details.

CHAPTER: Two

Question 1: Do you agree that we have accurately described the benefits of improving the switching process?

CHAPTER: Three

Question 1: Do you agree with our impact assessment on next-day, two-day and five-day switching based on either a new centralised registration service operated by the DCC or enhancing existing network-run switching services?

Question 2: Do you agree with our proposal to implement next-day switching on a new centralised registration service operated by the DCC?

Question 3: Do you consider that fast (e.g. next-day) switching will not have a detrimental impact on the gas and electricity balancing arrangements?

CHAPTER: Four

Question 1: A central electricity metering database is not currently included within our proposed package of reforms. Do you agree it should be excluded?

Question 2: If a central electricity metering database is included within our proposed package of reforms, do you consider that it should cover both AMR and traditional meters? Do you think that there would be any benefit in extending the central electricity metering database to cover smart meters?

CHAPTER: Five

Question 1: Do you agree with the implementation principles that we have identified?

Question 2: Do you agree that Ofgem has identified the right risks and issues when thinking about the implementation of its lead option (next-day switching with centralised registration)?

Question 3: Do you agree that we have identified the right implementation stages?

Question 4: What do you think is the best way to run the next phase of work to develop the Target Operating Model for the new switching arrangements?

Question 5: What do you think are the advantages and disadvantages of the DCC being directly involved in the design of a Target Operating Model for the new switching arrangements, and the development of the detailed changes required?

Question 6: Do you agree that an SCR is the best approach to making the necessary regulatory changes to improve the switching arrangements?

Question 7: Do you agree with the proposed implementation timetable? Are there ways to bring forward our target go-live date?

APPENDIX: Three

Question 1: Do you agree that we have accurately identified and assessed the main reforms that could improve the switching process?

APPENDIX: Four

Question 1: Do you agree that our approach, methodology and assumptions are appropriate to identify the quantified impacts of our reforms?

Question 2: Do you agree with our approach for approximating the direct costs for market participants of investing in upgrading existing registration systems to real-time processing and the ongoing costs of operating these systems?

Question 3: Do you agree with our assumption that the direct costs for market participants of investing in systems to shorten the objections window and the ongoing cost of operating these systems would be similar for a two-day and a one-day objections window?

Question 4: Do you agree with our assumption (see Annex Figure 3) that 10% of the counterfactual change of supplier electricity meter read costs provided by market participants should be attributed to AMR meters?

Question 5: Do you agree with our assumption (see Annex Figure 2) on the reduced efficiency of operating a central electricity metering database for traditional and AMR meters as the numbers of traditional meters declines?

Question 6: Do you think there is efficiency potential for shortening the objections window to one day combined with: (a) upgrading the existing gas and electricity registration systems to real-time processing; or (b) centralising registration with real-time processing? If so, what do you estimate this efficiency potential to be?

APPENDIX: Five

Question 1: Do you think the results set out in this appendix are comprehensive enough to show the potential direct cost impacts of the reform packages we have considered?

Appendix 7: Glossary

A

Advanced meter

The electricity and gas supply licence defines an advanced meter as one that must be capable of recording half-hour consumption data and of providing suppliers with remote access to this data.

Annualised Advance (AA)

An Annualised Advance is the annual rate of consumption at a supply point. It is an extrapolation based on the consumption between two meter reads.

Automated meter reading (AMR)

A type of smart meter which allows for one way communication to allow remote collection of consumption data.

B

Balancing and Settlement Code (BSC)

The BSC contains the governance arrangements for electricity balancing and settlement in Great Britain.

C

Central electricity metering database

A reform proposal to develop a database holding Meter Technical Details (MTD) and historic meter read data for electricity AMR and traditional meters in order to avoid the need to transfer these details between agents at change of supplier.

Change of Supplier Expert Group (COSEG)

Expert group formed by Ofgem with representatives from supplier and network trade associations, industry code experts, consumer representatives and government to help develop key aspects of the change of supplier process.



Moving to reliable next-day switching

Change of Supplier Project

This project concerns the process used by industry to transfer a customer from one supplier to another. Smart metering presents an opportunity to improve this process. Ofgem's ambition is for a fast, reliable and cost-effective process that facilitates competition and builds consumer confidence.

Change of supplier process

The process by which a consumer transfers from one supplier to another.

Competition and Markets Authority

The Competition and Markets Authority (CMA) works to promote competition for the benefit of consumers, both within and outside the UK.

Consumer Empowerment and Protection Project

This project seeks to ensure that regulation enables consumers to engage effectively in smarter markets.

Consumer Rights Directive 2011/83/EU

The Consumer Rights Directive 2011/83/EU aims to simplify consumer rights in certain important areas, mostly relating to buying and selling.

Cooling-off period

Domestic consumers will typically have a cooling off period (of 14 days) when they enter into a contract with a new energy supplier. During this time a domestic consumer can cancel the service contract it has entered into with the energy supplier.

Council of European Energy Regulation

The Council of European Energy Regulation is a not for profit organisation established in 2000 for the cooperation of the independent energy regulators of Europe. It seeks to facilitate the creation of a single, competitive, efficient and sustainable EU internal energy market.

D

Daily metered sites

Daily metered sites are supply points/sites with meters that read natural gas volume either on a continuous or daily basis.

Data Aggregator

As part of the settlement process, the party appointed by an electricity supplier to package up consumption data to meet the requirements set out in the Balancing and Settlement Code.

Data and Communications Company (DCC)

The Data and Communications Company (DCC) is a central communications body appointed to provide the communications and data transfer and management required to support smart metering. It is responsible for linking smart meters in homes and small businesses with the systems of energy suppliers, network operators and other companies. The DCC will develop and deliver data and communications services for smart meters through its external providers. In the short term, DCC is responsible for ensuring that the shared infrastructure is in place to allow timely delivery of those services.

Distribution Network Operator (DNOs)

Distribution Network Operators (DNOs) own and operate the distribution network of towers and cables that bring electricity from our national transmission network to homes and businesses.

Dual fuel

A type of energy contract where a customer takes gas and electricity from the same supplier.

E

Electricity Central Online Enquiry Service (ECOES)

A national database that holds customers' meter point administration numbers.

Electricity and gas supplier

A company licensed by Ofgem to sell energy to and bill customers in Great Britain.

ELEXON

The organisation responsible for administering the [Balancing and Settlement Code](#). The role and powers, functions and responsibilities of ELEXON are set out in Section C of the BSC.

Erroneous transfer

An erroneous transfer occurs when a customer has their supplier switched without having given consent.

Estimated Annual Consumption (EAC)

An EAC is an estimate of the annual rate of consumption based on historical data.

G

Gas confirmation window

The gas confirmation window is part of the customer transfer process and is the period following the end of the objection window and when the switch takes place.

Gas distribution networks

There are eight gas distribution networks (GDNs), each of which covers a separate geographical region of Great Britain.

Gas and Electricity Markets Authority (GEMA)

Ofgem is the [Office of Gas and Electricity Markets](#), which supports the Gas and Electricity Markets Authority (GEMA), the body established by section 1 of the Utilities Act 2000 to regulate the gas and electricity markets in Great Britain.

I

Industry codes

Industry codes and agreements underpin the gas and electricity markets and set out detailed rules for the gas and electricity markets that govern market operation and the terms of connection and access to the energy networks. The codes are contracts between signatories and provide a level playing field for services provided by central / monopoly providers, and contain interoperability requirements between competitors.

Independent Gas Transporter (iGT)

There are eight [gas distribution networks](#) (GDNs), each of which covers a separate geographical region of Great Britain. Within the eight gas distribution networks there are a number of smaller networks owned and operated by Independent Gas Transporters (IGTs). These are located within the areas covered by the GDNs.

Independent Gas Transporter (iGT) Uniform Network Code (UNC)

The [Independent Gas Transporter](#) Uniform Network Code (iGT UNC) was implemented on 1 May 2007 to streamline and harmonise the network code arrangements of the iGTs as much as possible. However, iGTs still maintain their own network codes for those requirements that are not covered by the iGT UNC. Like the Uniform Network Code, it sets out the commercial and technical arrangements between the iGT and its network users.

M

Master Registration Agreement (MRA)

The Master Registration Agreement (MRA) is a governance mechanism to manage the processes established between electricity suppliers and distribution companies to enable electricity suppliers to transfer customers. It includes terms for the provision of Metering Point Administration Services (MPAS) Registrations.

Meter Operator (MOP)

Meter operators are responsible for installing and maintaining meters.

Meter asset providers

Part of the [meter operator](#) role. Meter asset providers own and lease metering equipment to suppliers and consumers.

Meter Point Administration Service (MPAS)

Each regional electricity distributor in the UK (also known as the Distribution Network Operator, or DNO) operates the MPAS for a specific area of the UK.

N

Net present value

The HM Treasury Green Book defines a net present value as the discounted value of a stream of either future costs or benefits. The term Net Present Value (NPV) is used to describe the difference between the present value of a stream of costs and a stream of benefits.

Non daily metered sites

Non daily metered sites are supply points/ sites with meters which are read manually.

Non-half-hourly metering

A type of metering system which measures and records electrical energy flow over longer periods of time (than each half hour), from which energy flows in each half hour can be estimated.

National transmission networks

Britain's gas transmission network, the National Transmission System (NTS), is the high pressure gas network which transports gas from the entry terminals to gas distribution networks, or directly to power stations and other large industrial users. It is owned and operated by National Grid Gas plc (NGG).

Britain's electricity transmission network transmits high-voltage electricity from where it is produced to where it is needed throughout the country. The system is made up of high voltage electricity wires that extend across Britain and nearby offshore waters. It is owned and maintained by regional transmission companies, while the system as a whole is operated by a single System Operator (SO). This role is performed by National Grid Electricity Transmission plc (NGET).

O

Objections

The objections process allows an energy supplier to prevent a customer from switching to another supplier.

Ofgem

The Office of Gas and Electricity Markets (Ofgem) is responsible for protecting the interests of current and future gas and electricity consumers in Great Britain. It does this by promoting competition, wherever appropriate, and regulating the monopoly companies that run the gas and electricity networks. Ofgem is governed by the Gas and Electricity Markets Authority.

Ofgem's Code Governance Review

Ofgem's Code Governance Review project sought to improve the governance arrangements of these codes and reduce fragmentation. The first phase of this review implemented changes primarily to the gas Uniform Network Code, the Electricity Balancing and Settlement Code and the Connection Use of System Code. The second phase sought to extend the Code Governance Review outcomes to other industry codes and agreements.



P

[Prepayment meter \(PPM\)](#)

A prepayment meter is a type of meter that allows consumers to pay as they go for their energy. Consumers pay for their energy using a token, key or card.

[Project Nexus](#)

Project Nexus is an industry project to introduce new gas settlements and IGT registration arrangements by end 2015.

R

[Registration](#)

Each network company is required by its licence to maintain a register of supply points connected to its network. This register includes an address and unique reference number for each supply point as well as the identity of the supplier responsible for it.

[Retail Market Review](#)

The Retail Market Review was an Ofgem project with the aims of making the retail energy market work better at serving the interests of consumers and enabling individual consumers to get a better deal from energy suppliers.

S

[Significant Code Review](#)

The Significant Code Review (SCR) mechanism is designed to facilitate complex and significant changes to the codes that energy companies are required to abide by. It enables Ofgem to undertake a review of a code-based issue and play a leading role in facilitating code changes through a review process.

[Smart Energy Code \(SEC\)](#)

The Smart Energy Code (SEC) came into force on 23 September 2013, when the [Data Communication Company's](#) (DCC) licence was granted. The SEC is a multiparty contract which sets out the terms for the provision of the DCC's services and specifies other provisions to govern the end-to-end management of smart metering in gas and electricity.

The DCC, suppliers and network operators are required by licence to become a party to the SEC and comply with its provisions. Other bodies who wish to use the DCC's services, such as energy efficiency and energy service companies, must accede to the SEC to do so.

Smart meter

A meter which, in addition to traditional metering functionality (measuring and registering the amount of energy that passes through it), is capable of providing additional functionality, for example two way communication allowing it to transmit meter reads and receive data remotely. It must also comply with the technical specification set out by the government.

Smarter Markets Programme

The Smarter Markets Programme is Ofgem's way of coordinating our work to use the opportunity that smart metering presents to make retail energy markets work better for consumers.

State of the Market Assessment

In November 2013 Ofgem agreed to work with the Office of Fair Trading and the Competition and Markets Authority to produce an assessment of how well competition in the energy retail market is serving the interests of households and small business in Great Britain. We published our findings in April 2014.

SMETS1/ SMETS2 (Smart Metering Electrical Technical Specifications)

These are the technical specifications that must be complied with when installing metering equipment. There are two versions – version 2 or SMETS2 is the latest version published by the Department for Energy and Climate Change in March 2014. This version replaces the previous version – SMETS1.

Supply point register

A system that maintains the lists of supply points on a network and holds the postal address, identity of the supplier and information on the characteristics of the supply and installed metering system for each supply point. Each supply point will have a unique identifier (the Meter Point Administration Number in electricity or Meter Point Registration Number in gas).

T

Third EU Energy Package

The Third EU Energy Package refers to a package of EU legislation on European electricity and gas markets that entered into force on the 3rd September 2009. The purpose of the Third Package is to further liberalise European energy markets.

Third Party Intermediaries

Third Party Intermediaries (TPIs) include switching websites, energy brokers and energy efficiency advice providers who interact with energy consumers. TPIs can offer advice and products to assist with a range of functions including energy procurement, efficiency and management.



Moving to reliable next-day switching

Time-of-use (ToU) tariffs

Energy tariffs that charge different prices at different times of the day, week, month or year.

U

Uniform Network Code (UNC)

The Uniform Network Code defines the rights and responsibilities for all users of gas transportation systems and provides all system users with equal access to the transportation services.

Unique property reference number

Unique Property Reference Number and is a unique twelve digit number assigned to every unit of land and property in the Great Britain.

Unmetered supply

Electronic equipment that draws a current and is connected to the distribution network without a meter recording its energy consumption.

X

Xoserve

Xoserve is the Gas Distribution Networks' Agent and provides centralised information and data services for gas transporters and shippers in Great Britain.

Appendix 8: Feedback questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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