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Dear Andrew

Response to Ofgem's consultation on moving to reliable next-day switching

This submission was prepared by the Consumer Futures energy team within Citizens Advice which has statutory responsibilities to represent the interests of GB energy consumers. We welcome the opportunity to provide a response to Ofgem's consultation regarding moving to reliable next-day switching. This submission is entirely non-confidential. We have not answered all questions as some are technical and more aimed at industry.

Citizens Advice agrees in principle with Ofgem's proposal to allow consumers to be able to reliably switch supplier the next day. As we understand it the plan is for the Data and Communications Company (DCC) to outsource both the contract and responsibility of managing centralised one-day switching.

We recognise that the DCC will not directly manage the centralised switching system and this goes some way to minimising risk to its core role. We are nevertheless concerned that developing the contract specification, running a tender, and managing the performance, and associated activities, of the company that is subsequently selected will not be without its own challenges. We want to ensure that any risks to the DCC's core role to manage smart information flows are fully mapped out and mitigated.

Another concern is regarding Ofgem's proposal to run a Significant Code Review (SCR) in parallel with the DCC designing the blue print or 'Targeting Operating Model'. This approach seems to risk putting the cart before the horse – presumably if the DCC is to design the model then it should be given time to complete this work before the SCR works through the code implications of that design.

We support an enthusiastic timetable for moving to faster switching. This is a long overdue reform for consumers. However we think it is vital that before a decision is made to move to next-day switching, the costs and benefits for consumers of the various options are thoroughly investigated.

Chapter: Two

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

We agree that Ofgem has correctly described the benefits of improving the switching process. We believe it is vital that the issues of length and complexity of switching, and problems during the switch, are tackled by the regulator. A smooth and error free change of supplier process is critical to improving and continuing consumer engagement in the energy sector.

Switching should be one of the key building blocks of a competitive energy market. In theory, consumers voting with their feet over which energy company they use should help keep energy firms responsive – competing on pricing and service to attract new customers and retain their existing ones. But, as Ofgem highlights, the problem is that energy switching rates in the UK have fallen significantly. Traditionally we have had one of the highest energy switching rates in the EU; likewise switching rates are higher in the energy industry than in the other major UK consumer markets, such as banking and telecommunications. There was a sharp jump in switching in the last quarter of 2013, but a steady and pronounced decline in the numbers of consumers switching can be seen since 2008 in DECC's quarterly tracking statistics.[1]

We agree with the regulator that improving the switching process is one way in which we can encourage consumers to engage in the market. Also we concur with Ofgem that it needs to be easier for consumers to be able to navigate the market; customers need to be able to choose a suitable tariff for their needs and be confident that they are getting a fair deal. As we stated in our report 'Switched On? Consumer experiences of energy switching?'[2] getting switching right, along with consumer concerns over pricing, is central to rebuilding consumer engagement in the energy market.

We are supportive of Ofgem's vision for smarter energy markets that are more efficient, dynamic and competitive. We agree that we should use the opportunities offered by the roll-out of smart metering in order to make the switching process quicker and more reliable for consumers.

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?

[1] https://www.gov.uk/government/statistical-data-sets/quarterly-domestic-energy-switching-statistics
[2] http://www.consumerfutures.org.uk/files/2013/05/Switched-on.pdf

We agree with Ofgem's drive for a step change in switching. Our key concern regarding the impact assessment of the reforms is that it is one-sided. The modelling considers the cost side of the proposal but it does not address the consumer benefits associated with next-day switching that would notionally be delivered by increased competition between suppliers. Our understanding of the cost benefit analysis is that next-day switching represents a net cost to consumers of approximately £120 million. Therefore we can only support this proposal if consumer benefits greater than this figure could be demonstrated. Another concern is that the extra responsibility that the DCC would take on would mean that it may get side tracked from its core role of establishing and managing the smart metering data and communications infrastructure. We advocate Ofgem's longer-term objective of establishing a switching process that is fast, reliable and cost-effective, which in turn aims to build consumer confidence and improve competition.

We recognise that centralising registration services should make the change of supplier process more reliable and easier for consumers. The complexity of the current arrangements can often be the cause for delays and problems with a switch.

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

As previously mentioned we agree in principle with the regulator's preferred reform package of next-day switching with a new centralised registration service operated by the DCC – subject to a full analysis and mitigation of the risks we have raised in the previous question and earlier in our response.

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?

Our view is that subject to the costs and benefits being properly assessed, balancing arrangements should be adjusted to facilitate faster switching for consumers rather than being seen as a barrier to reform.

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?

The lack of co-ordination between suppliers under the current bilateral switching arrangements is often the cause of delayed or erroneous transfers which are problematic for consumers. We consider that a central electricity metering database could make switching more efficient and reliable. However, we also note the point made in the consultation that a change in the rules regarding metering agents may be a more effective partial solution for non-smart meters, whilst with smart meters there should in theory be no need for a central database. Such a database would also raise a number of concerns from the consumer perspective, outlined in the next paragraph. Therefore Citizens Advice accepts the conclusion not to include the central database in the current package of reforms, but it

should not be ruled out in future, given that the alternative solutions for both smart and non-smart meters are yet to be proven.

A central database would raise concerns in the areas of cost, data privacy and practical governance. First, while it might allow costs savings in the long run, such a project would put pressure on bills over the next few years. It is true consumers currently pay for the cost of delays and errors in the current system and a database might alleviate this, but we would seek assurance that its costs and risks had been adequately considered. Second, storing so much of consumers' data in one location would pose a significant risk to data privacy through hacking or lack of regulation. We note that the information that needed to be stored would be likely to include bank details. Third, if responsibility for setting up and running the database fell to the DCC, it would be important that this did not disrupt their primary responsibilities in the smart meter roll-out, since there is little margin for error in the consumer experience here.

On the other hand, if the above concerns are addressed a database need not be ruled out. Other solutions may not be sufficient. The 7WD agent requirements have yet to be tested, and it is unclear how it will be possible to move forwards from the seven day requirement to next-day switching. It is essential that the operation of the new rules is monitored and planning for the next step forwards should be early and proactive. It will not be enough to wait for the problem to be caused by smart meters, since there is a high chance that a substantial number of meters will still be non-smart or run in non-smart mode even post-2020. Therefore a next-day switching solution must be found that works for non-smart and smart alike. Even if a consumer has a smart meter, suppliers will still face various complications at the point of switching. We welcome the process changes already underway to accommodate this, but new problems may still emerge to which a central database could be the best solution. We accept the consultation's inclination not to introduce it immediately, but further experience is needed of the other options before deciding it is unnecessary.

Question 2: If a central metering database is included within our proposed package of reforms, do you consider 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?

We agree that the database should cover both AMR and traditional meters, and there might be some benefit in including smart meters. It would be desirable to minimize the discrepancies in switching process between consumers with and without smart meters, to avoid confusion. It would be particularly unfortunate if a central database was so effective as to make switching easier without a smart meter than with one, so that consumers felt they were going backwards when a smart meter was installed.

Consideration also needs to be given to the case where a consumer is experiencing connectivity problems, which could be intermittent or long-term, at the point of trying to switch. Likewise, a consumer might have a smart meter but at some point decide to switch it into non-smart mode. In these eventualities, how would switching work if consumers with smart meters were not part of the database?

However, if parity of service can be provided without including smart meters in the database, this would be more efficient and offer greater data privacy. Assimilating smart meters to a pre-smart system should not mean that specifically smart issues are neglected or other switching issues. For instance, next-day switching should be considered alongside the issue of changing the basis of charging (as discussed in our response to the GOSP consultation, q.6) and transferring credit for PPM customers.

Chapter: Five

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

The implementation principles outlined in the consultation document appear sensible.

We agree that a focus on consumer outcomes must be a guiding principle for the implementation of next-day switching, noting for example the comments we make in response to question three regarding the impact for balancing arrangements. We would also call for close regard be given to the interests of different classes of customers – particularly pre-payment meters (PPM) customers and/or those who remain on traditional meters into the smart meter world.

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

We do not object to the risks and issues that Ofgem has identified, although in line with our comments in response to the previous question, we think the risks for different classes of customers must be made more explicit in the governance arrangements for this project.

In addition, a move to next-day switching will necessitate changes to multiple network codes, and Ofgem is right to signal that it may look to utilise the SCR mechanism given the experience of industry led processes like the P272 modification. Although it is probably implied in the four high-level implementation risks identified in the consultation document, we think there is merit in identifying 'coordinating network code modifications' as a specific risk under paragraph 5.4.

Ofgem is also right to identify competing industry priorities as a major consideration in a move to next-day switching, particularly to the extent that allocating new responsibilities to the DCC may divert it from its core responsibilities to establish the systems, and then manage information flows for smart meters.

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

The implementation stages appear broadly sensible. The question is how they will be phased – whether as discrete 'steps' or as parallel 'workstreams'.

As the consultation document notes therefore, a key question for implementation will be how to phase the model design and SCR stages. Logic suggests it would be preferable to have a draft model design before initiating an SCR process that explores the implications for

network codes, to do otherwise would seem to risk a muddying of accountabilities between the organisation tasked with the design, Ofgem and code administrators. If the processes are to be run in parallel to reduce the implementation timescale, then the governance arrangements for managing interdependencies between workstreams would need to be made clear from the outset.

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

Given the slow progress that has been made on speeding up the switching process in recent years under an industry led model, a centralised model has obvious attractions, and the DCC is clearly a candidate to manage the role. Our concern, and something that we would like to see tested in more detail as part of subsequent stages of this process, is that expanding its role to include procuring and managing contracts could compromise its chances of getting up and running and delivering its core functions as part of the smart meter rollout. We would therefore like to see a more detailed assessment of the merits of the DCC performing this role, including a risk assessment of what it might mean for the delivery of its core functions.

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

Yes, the experience of industry led code medication processes on similarly complex and interdependent reforms such as for half hourly metering suggests that Ofgem must play a more prominent coordination role. But as we have highlighted in response to other questions, the challenge will be how an SCR is phased with model design.

We would note that Ofgem would need to ensure that an SCR process did not lapse into the protracted processes we have seen for other SCR's, such as for Electricity Balancing that has taken more than three years to complete (not including time to undertake subsequent code modification processes).

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

We support an ambitious timetable for moving to next-day switching. This is a long overdue reform for consumers. But it is critical that before a decision is made to move to next-day switching that a thorough cost benefit analysis is undertaken and a clear net benefit to consumers is demonstrated in terms of increased competition.

Appendix: Four

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

The modelling addresses the cost side of the proposal in reasonable detail, but does not quantify the consumer benefits associated with faster switching that would notionally be delivered by increased competition between suppliers (although it does factor in system efficiencies for industry participants that at least notionally would be passed through to consumers). We do not believe that consumers should be content to take it on trust that 'the benefits of next-day switching on a new centralised registration service will significantly outweigh the identified costs' as is stated on page 19-20 of the consultation document.

As we understand it, the result of the cost benefit analysis for next-day switching is a net cost to consumers of approximately £120 million – obviously we could only support the proposal if consumer benefits greater than this figure could be demonstrated.

We think it is also appropriate that consideration be given to how the costs of implementing next-day switching would be passed through to consumers. For example, it will be important to understand the time period over which the capital costs of the reform will be recouped, and how affordability impacts will be assessed and managed.

Yours,

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