

August 11, 2014

Dear Sir,

Moving to reliable next-day switching

Please find Co-Operative Energy's response to the above consultation below.

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 network-run switching services?

Yes.

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

While we agree that speeding up the customer switching process may increase consumer engagement in the energy market, we are uncertain that the additional c. £75m cost relating to DCC operating a central registration service in order to deliver next day switching will justify one-day switching as opposed to two-day switching without this requirement.

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?

We believe that the current balancing arrangements for both electricity and gas will be able to accommodate this change.

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?

We agree that it would not be efficient from a financial point of view given the projected cost and time limited benefits to set up a central electricity metering database at this time.

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?



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Please see our answer to Question 1 above, we do not believe that the benefit of this would be likely to outweigh the costs.

Chapter Five

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

The implementation principles identified seem appropriate.

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)?

Yes.

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

Yes.

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?

We are of the view that the best way forward is to mandate DCC to develop the Target Operating Model with it contracting externally for the project management role to avoid being distracted from its main function of creating the smart metering communications system.

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 charges required?

We agree that it would be logical for DCC to be involved as it will be running the new switching arrangements. Although there is a small risk that this may then distract it from its main function, we do not believe that this will be an issue as long as it is required to contract the project management role out to an independent third party.

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

Yes, as this will then avoid any other proposals being raised by industry in relation to this in the interim period and allow proper oversight and co-ordination by Ofgem.

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

We believe that the proposed implementation date is suitable, particularly as this will require a reasonable level of completed smart meter installations to make it viable. As this level is unlikely to be reached before 2018, we feel that the target date should remain where it is. However, in light of this consideration, we are unfortunately unable to suggest any ways that this could reasonably be brought forward.

Appendix: Three

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

Yes.

Appendix: Four

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

These seem reasonable.

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?

We note that the cost of introducing next day switching is significantly higher than the cost of introducing two day switching and would again like to reiterate our view that this additional cost may not outweigh the benefit of shortening the switching process by an extra twenty four hours. However, in the case that Ofgem decides to proceed with this approach, we would request that the cost to smaller suppliers be considered.

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?

Given that Ofgem's own figures show that the cost of implementing one day switching would be considerably higher than those of implementing two day switching we feel that the cost differential is likely to be significant, particularly for smaller suppliers.

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

We agree that this is very difficult to determine but this would seem appropriate given the AMR meter cost estimates so far received, despite the relatively small number of AMR meters in the market.

Question 5: Do you agree with our assumption on the reduced efficiency of operating a central electricity metering database for traditional and AMR meters as the number of traditional meters declines?

Yes, the value of this will reduce over time as traditional meters are replaced by smart meters.

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?

If Ofgem is minded to move to one day switching, then we believe the greatest level of financial efficiency would be likely to derive from upgrading the existing gas and electricity registration systems to real-time processing. While it is likely that centralising registration with real-time processing might be likely to lead to speedier

conclusion of the switching process, we are of the view that the higher costs of this change might outweigh this benefit.

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?

Yes.

I trust that this response will prove useful, please do not hesitate to contact Chris Hill (christian.hill@cooperativeenergy.coop) should you have any questions or require any further information.

Yours faithfully,

Steve Rowe

Head of Regulation and Compliance