

Moving to reliable next-day switching

Consultation Response

1 Introduction

Smart DCC (DCC) is pleased to respond to Ofgem's consultation on implementing a policy of next-day switching.

DCC's response has been developed with reference to its Licence obligations pertaining to the provision of Energy Registration Services.¹

DCC does not consider any of its response to be confidential and is happy for it to be published.

We look forward to working with Ofgem and industry on this transformational initiative.

Yours sincerely,

Jonathan Bennett

Head of Strategy and Development

¹ Condition 15. Incorporation of Energy Registration Services

2 DCC Response

Chapter 2: The case for reform

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| Q1 | Do you agree that we have accurately described the benefits of improving the switching process? |
| A1 | <p>DCC agrees with the consumer benefits that Ofgem have articulated in the case for reform.</p> <p>DCC believes that reforming switching processes, in addition to other significant reforms including smart metering and the transition to half-hourly settlement can facilitate effective competition and enable consumer-value driven innovation in the operation of energy supply markets. Whilst these implications are alluded to in paragraphs 2.5 – 2.7, DCC believes that they should be articulated more explicitly as they would need to drive the overall business case for a next-day switching programme.</p> |

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

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| Q1 | 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? |
| A1 | <p>DCC broadly agrees with Ofgem's impact assessment covering next-day, two-day and five-day switching.</p> <p>Owing to the level of industry change required to execute next-day or two-day switching, DCC believes that any future change programme must be supported by a comprehensive business case that underpins the design and execution of changes by all dependent parties to deliver the agreed option.</p> |
| Q2 | Do you agree with our proposal to implement next-day switching on a new centralised registration next-day, two-day and five-day switching service operated by the DCC? |
| A2 | DCC has not responded to this question. |
| Q3 | 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? |
| A3 | <p>DCC believes that potential impacts on gas and electricity balancing arrangements (like all cross-industry impacts) should be identified and managed early on during the design phase of a next-day switching programme.</p> <p>The DCC team's experience of multi-party change (inside and outside the energy industry) indicates that cross-industry impacts, if unmanaged at an early stage, are</p> |

a principal factor in diluting the vision for change later down the line, causing an erosion of the benefits case.

DCC believes that any dependencies should be identified and managed at the earliest possible stage in the programme.

Chapter 4: Metering reforms

Q1 A central electricity metering database is not currently included within our proposed package of reforms. Do you agree it should be excluded?

A1 DCC does not have a firm position as to whether a central electricity meter database should be included within the scope of the next-day switching reform package.

DCC believes that if tangible consumer and industry benefits are identified, the introduction of a database should be robustly assessed within the framework of the overall business case for next-day switching. This would include an assessment of the impact of introducing the database in relation to the overall programme, covering timescales, cost, quality, benefits and risk.

Q2 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?

A2 DCC does not have a firm position as to whether a central electricity metering database should include AMR and/or traditional meters.

DCC does not believe a central electricity metering database should cover smart meters. DCC believes that this diverges from the intent of the DCC model (as currently scoped) and risks adding complexity to the smart metering landscape.

Chapter 5: Implementation approach and timescales

Q1 Do you agree with the implementation principles that we have identified?

A1 *Principle 1 – Focus on consumer outcomes:* DCC agrees with this principle. Setting a clear, unambiguous consumer-centric vision for the next-day switching programme will be essential for setting direction, driving delivery and mitigating against dilution of benefits.

Principle 2 – Implement as soon as possible: Whilst DCC understands the intent behind this principle, we believe that over emphasis on time over cost, quality and risk may drive programme decision-making that is not in the interests of the consumer and may result in dilution of the vision and benefits.

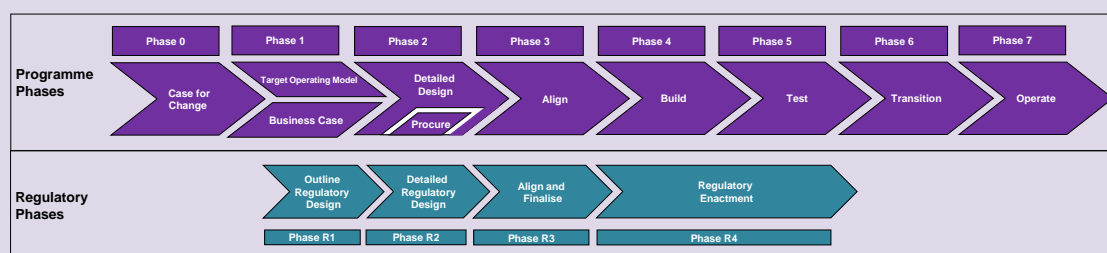
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| | <p>Time, cost, quality and risk will need to be continually balanced throughout the programme lifecycle.</p> <p><i>Principle 3 – Make best use of industry expertise:</i> DCC concurs with the importance of engaging a diverse set of industry parties across the programme. We also agree with the notion that industry representation will need to change at different phases of the programme lifecycle.</p> <p>However, DCC is firmly of the opinion that during design phases, the next-day switching programme should also utilise expertise from beyond the energy industry (and other switching programmes e.g. mobile switching, current account switching) to challenge assumptions and bring new ideas to service design which will ensure that the next-day switching service meets the needs of consumers, incumbents and new entrants.</p> <p><i>Principle 4 – Identifying and managing risks:</i> DCC concurs with this principle. Our assessment of Ofgem’s key risks is included in Question 2 below.</p> |
| Q2 | <p>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)?</p> |
| A2 | <p>DCC broadly agrees with the four key risks when thinking about the implementation of its lead option. In addition, DCC believes that Ofgem should consider the following risks.</p> <p><i>Benefit dilution</i> – DCC believes that a risk associated with benefit dilution should be front and centre of Ofgem’s thinking as the next-day switching programme transitions through inception, design and into execution. The complexity of the change, number of actors, importance of cost control and ambitious timescales could easily result in dilution and degradation of the benefit case as the programme reaches key decision-points. DCC believes this risk needs to be firmly mitigated.</p> <p><i>Incrementalism</i> – DCC notes that change in the energy industry is often delivered through consensual governance and incremental execution. DCC is not advocating that next-day switching necessarily be delivered through a top-down/big-bang strategy. However, we believe that incrementalism as a delivery strategy for next-day switching has the potential to miss opportunities to eliminate complexity, dilute benefits, incubate delays and undermine the disruptive potential of next-day switching on energy market arrangements.</p> <p><i>Change coherence</i> – DCC believes that Ofgem should monitor a risk that changes being proposed across the energy industry are not coherent/ complementary.</p> <p>From a DCC stand-point, the implementation of smart meters, transition to a next-day switching environment plus potential reforms to balancing and settlement arrangements start to fundamentally shift the data and communications environment in which the energy industry operates.</p> <p>DCC believes that the risk of incoherence needs to be recognised now to mitigate against unintended consequences caused by design decisions made in isolation.</p> |

Q3 Do you agree that we have identified the right implementation stages?

A3 DCC believes that the implementation stages identified by Ofgem require refinement. As set out, the phases do not recognise the requirement to conduct next-day switching service design alongside regulatory design.

Learning from SMIP indicates that detailed service design and detailed regulatory design must be finalised concurrently, allowing for a period of alignment between the two before transitioning into Build and Test stages for the service and the enactment of regulatory changes.

The diagram below outlines how programme stages could be run in parallel with regulatory stages. DCC believes that close co-ordination of service design and regulatory development is essential for successful execution of the programme.



NB: the diagram illustrates logical phasing; it does not assume timescales.

| Phase | Name | Description | Phase | Name | Description |
|-------|------------------------|--|-------|----------------------------|---|
| 0 | Case for Change | Clear articulation of the NDS vision and benefits resulting from the change | | | |
| 1 | Target Operating Model | A systematic articulation of how the NDS service will operate | R1 | Outline Regulatory Design | Identification of outline requirements for SEC and industry codes |
| | Business Case | A comprehensive business case which will underpin execution of the NDS programme | | | |
| 2 | Detailed Design | Creation of detailed design and business requirements for interface parties and NDS procurement(s) | R2 | Detailed Regulatory Design | Development of detailed drafting in step with service design |
| | Procure | Procurement of NDS solution(s) | | | |
| 3 | Align | Alignment of detailed service designs (post-procurement) and detailed regulatory design to form a baseline | R3 | Align and Finalise | Alignment and finalisation of drafting to ensure alignment with detailed service design |
| 4 | Build | Build of NDS service and interfaces | R4 | Regulatory Enactment | Execution of regulatory changes |
| 5 | Test | Test of NDS service and interfaces | | | |
| 6 | Transition | Ensure operational readiness of NDS service and interfaces | | | |
| 7 | Operate | Live operations | | | |

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| Q4 | 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? |
| A4 | <p>DCC believes that the next-day switching Target Operating Model (TOM) should be developed in conjunction with a detailed business case which will provide the cost/benefit framework against which the programme must deliver.</p> <p>DCC believes that the design of the TOM and production of supporting business case should be led by DCC, to deliver against the vision and case for change set out by Ofgem.</p> <p>DCC would assemble a dedicated team to deliver the underlying service design, TOM and supporting business case. DCC would secure consumer, incumbent industry party, third party intermediary (TPI) and new entrant participation in this work to drive innovative thinking into service design, iterate solutions and to test options.</p> <p>As outlined in Question 3, DCC believes that development of the TOM and business case should occur concurrently with the development of the outline regulatory design. This will ensure that the overall blueprint (covering system-wide changes) for next-day switching is aligned.</p> |
| Q5 | 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? |
| A5 | <p>DCC believes that in order for it to deliver an optimal next-day switching service, it should play a leading role in the design of the TOM, to deliver against Ofgem's vision and case for change.</p> <p><i>Advantages</i></p> <ul style="list-style-type: none"> • The DCC Licence provides a framework of obligations which will ensure that the TOM design: <ul style="list-style-type: none"> ○ is in the interests of the consumer and is in line with the objective of facilitating competition and enabling innovation in the supply of energy ○ engages energy industry participants in the service design process ○ delivers value for money for the consumer and industry • DCC has clearly defined procurement obligations which it must meet when procuring Relevant Service Capability which would apply to next-day switching² • DCC is set up to be able access the expertise and specialist resources required to deliver requirements such as the development of the next-day switching TOM (e.g. design, programme, security, commercial resources) • DCC has established relationships with the energy industry in executing service design processes |

² As referenced in the consultation, DCC's role as a thin intelligent client /contract management entity means that the next-day switching service would be implemented and managed separately from the smart metering service

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| | <ul style="list-style-type: none"> DCC is already held to account in the execution of Licence and SEC obligations by Ofgem and SEC Panel. This consultation envisages this being repeated for next-day switching. <p><i>Disadvantages</i></p> <p>DCC recognises that there are potential disadvantages to it playing a role in the design of the TOM and we have outlined some potential mitigations to these concerns:</p> <ul style="list-style-type: none"> Dilution of focus on smart metering – DCC would ensure that separate, dedicated resources are used on next-day switching, ensuring that the focus of the core programme is unequivocally on DCC Initial Live Operations, operational performance, Enrolment and Adoption of SMETS1 meters and the realisation of the consumer benefits of smart metering Conflict of interest through participation in regulatory design – DCC notes that alignment of the TOM and regulatory design will be critical to deliver an effective switching service to time, without diluting vision or benefits. DCC believes that potential conflicts of interest can be managed through Ofgem’s Significant Code Review (SCR) powers and programme sponsorship/oversight role. |
| Q6 | Do you agree that an SCR is the best approach to making the necessary regulatory changes to improve the switching arrangements? |
| A6 | <p>Owing to the cross-code implications of implementing next-day switching, DCC agrees that an SCR is the best approach to execute regulatory changes.</p> <p>DCC has reviewed Ofgem’s guidance on the launch and conduct of SCRs. In relation to the next-day switching programme, DCC’s key concern is that the SCR process should align to programme phases and timescales; it should not drive them.</p> <p>DCC also notes that changes will be required to its Licence at an early stage in the programme lifecycle to enable it to deliver the requirements envisaged in this consultation.</p> |
| Q7 | Do you agree with the proposed implementation timetable? Are there ways to bring forward our target go-live date? |
| A7 | <p>DCC believes that the target go-live date of Q3 2018 is achievable.</p> <p>DCC believes that there are opportunities to bring forward the target go-live date through the effective and efficient execution of detailed design, procurement, build and test phases and the alignment of regulatory changes with these. However, DCC is of the opinion that is essential that sufficient contingency is built into programme timescales to reflect the complexity of this multi-party change.</p> <p>DCC believes that opportunities to bring forward go-live can only be secured by accelerating programme initiation, TOM and business case activity.</p> |

Appendices 3-5

DCC has not responded to these questions.