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Moving to reliable next-day switching

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy supports Ofgem's work on reforming the switching process. Customers expect to be able to switch suppliers for both fuels at the same time, reliably, accurately and quickly – the switching process should be as simple, fast and cost-effective as possible, while delivering a positive customer experience.

We believe that the centralisation and unification of the registration systems under the DCC will be key to delivering an improved dual fuel switching experience for customers. In particular, we see significant benefits from moving to a single registration platform and process in terms of improved customer service, and reduced costs of future change.

Aligning gas and electricity account switching, and providing a simple, quick and cost effective solution is the right thing to do for customers, as it will enable them to more quickly realise benefits from switching supplier and help remove a potential barrier to engagement with the market.

We note that the cost information provided highlights that next day switching has a higher cost relative to alternative options such as two day switching. However, we also note that there has been no quantification of the increased benefits to be gained from the former compared with the latter.

EDF Energy believes that it is imperative that consumers receive the optimum balance of cost and benefits for any change. To that end, we believe that further work is required before the best solution can be identified and that it is prudent to keep a number of options open at this stage of the reform programme. Consistent with this, we believe that Ofgem should develop the Target Operating Model for a centralised registration system that supports both the next day and two day switching options. This will allow the costs of the two options to be more accurately identified and ensure that the most cost effective option will be progressed.

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The changes required to deliver centralised registration will be wide-ranging and complex, impacting numerous codes and systems. Effective programme management and governance arrangements will need to be in place to ensure that the desired outcomes are achieved on a timely and cost effective basis. The development of an agreed Target Operating Model to underpin the development of more detailed changes will be critical to successful delivery.

EDF Energy strongly believes that the Target Operating Model for customer switching should form part of a wider Target Operating Model for the industry, driven by a clear vision of what a future smarter market looks like. Changes to registration systems and processes need to form part of a strategic roadmap that sets out the changes that the industry will need to implement in the next ten to fifteen years. This roadmap should also include other changes driven by the Smarter Markets programme such as settlement reform and consumer empowerment, as well as work being undertaken on smart grids. A clear vision of a future Target Operating Model will provide direction for the projects and programmes that will deliver that model. We believe that strong leadership will be required by Ofgem to ensure that the overall programme achieves its aims and delivers the outcomes that customers expect.

EDF Energy supports Ofgem's ambition to deliver their proposed reforms quickly, given the benefits that will be realised by customers through faster switching on a centralised registration system. We believe that Q3 2018 is an achievable implementation date; however, the focus must be on ensuring that we deliver the right changes at the right time, rather than being driven by an aspirational target implementation date.

Robust 'left to right' planning will be required to determine when these reforms can be delivered; and may enable delivery within the timescales indicated by Ofgem. This planning will also need to ensure that the development of these reforms does not create any risk to the ability of the industry to deliver its smart metering rollout targets. Reform to the switching process must build on the success of the smart metering programme and be careful not to divert effort that could jeopardise that success.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Ashley Pocock on 01342 413838, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in blue ink, reading 'Paul Delamare'.

Paul Delamare
Head of Downstream Policy and Regulation

Attachment

Moving to reliable next-day switching

EDF Energy's response to your questions

CHAPTER: Two

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

EDF Energy broadly agrees that Ofgem has accurately described the benefits of improving the switching process. Evidence shows that for some customers the switching process can prove to be a poor experience, taking time to complete and being prone to errors. A reliable and faster switching process will deliver a positive customer experience, enable customers to quickly realise any benefits from switching supplier and continue to empower customers to engage in the market.

We believe that the quantitative impacts of making such improvements should be identified and included in the analysis of reform options. The consultation document itself notes that 'given the difficulties in quantifying some of the direct and wider impacts of the reforms, the assessment criteria are heavily oriented towards qualitative aspects'. The analysis has therefore focused on the principle that improvements to the process will deliver a financial benefit to customers without being able to identify accurately what those benefits will be.

It would also appear that speed is being promoted ahead of reliability. The key message from the customer research in the consultation document is that customers want the switching process to be reliable. We agree that we must deliver a faster switching process that meets current and future customer expectations, but this must not come at the expense of reliability and accuracy.

EDF Energy agrees that the current switching systems and processes are no longer fit for purpose and need to be replaced; however, there needs to be a continual focus on affordability throughout the life of this programme. The Target Operating Model that is developed as a result of the proposals in the consultation needs to deliver a set of systems and processes that deliver a real and quantifiable benefit to customers.

CHAPTER: Three

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?

EDF Energy agrees with many of the aspects of Ofgem's assessment; however, there are some additional considerations that we believe should be included and which in some cases strengthen the case for change. These are detailed below.

Weighting of evaluation criteria

EDF Energy does not believe that the criteria used in Ofgem's assessment have been allocated the appropriate weighting. Specifically, there is an insufficient focus on cost in this impact assessment; alongside reliability, this should be the most important criterion by which any reforms are assessed. There is also insufficient quantification of the benefits that customers would receive as a result of implementing the different reform options. Any costs that are incurred as a result of making changes to systems and processes to deliver faster and more reliable switching will ultimately be borne by customers. There is therefore a clear need to demonstrate to customers that such changes deliver a real and quantifiable benefit to them.

Analysis of estimated costs

We are concerned with the conclusions that have been drawn from the analysis on estimated costs. Based on the evidence that is presented the lowest cost option is two day switching on a new registration platform. This has lower CAPEX costs than next day switching and would actually deliver a reduction in OPEX costs relative to the current position, which none of the other reform options achieve. However, in the summary table on page 22 of the consultation document it is stated that with regard to the two day switching option 'the costs per customer are broadly similar to next-day.' We do not believe that this is an accurate reflection of the data presented on pages 20 and 21 of the consultation document.

In the absence of any detailed analysis of the quantifiable benefits of improving switching times, Ofgem's preferred option of next day switching does not seem to represent best value for customers.

However, we recognise that the cost information that was used as the basis of this analysis is unlikely to be robust. Such information was provided by market participants on the basis of a very high level definition of the reforms. It is only once the detail of the Target Operating Model is defined and understood that the true costs of these reforms can be accurately assessed.

We believe that Ofgem should develop the Target Operating Model for a centralised registration system that supports both the next day and two day switching options. This will allow the costs and benefits of the two options to be more accurately identified and ensure that the most cost effective option will be progressed.

Reliability

We agree that reliability of the switching process is a primary factor in assessing these reforms and, as noted in the consultation, is the key concern for customers in regard to the switching process. We concur with Ofgem's assessment of the reform options in regard to the impact on reliability; however, we have some concerns regarding the assertion that reliability is primarily a reflection of the registration systems. While the existing systems and associated processes are a source of many of the issues that affect the current switching process, the data held in those systems also has a significant impact on the reliability of the existing process.

The ability to access accurate customer information on a timely basis, as well as metering and consumption data, is critical to ensuring the switching process completes accurately and reliably. Any new centralised registration system will only deliver the required reliability if it is populated with accurate data. This needs to be appropriately accounted for when creating the Target Operating Model referred to in the consultation.

In terms of reliability, the key concern for customers is having confidence that a switch will occur when they have been told it will. Any new centralised registration system, and the associated processes, must therefore be designed to be as error-free as possible to ensure that the customer's expectations on when the switch will complete can be met. The message to customers needs to be as clear and simple as possible; it shouldn't need to relate to the time of day that they initiated the switching process.

When considering shorter switching times, and especially next day switching, it is essential that the process is able to conclude within the specified timescales. For smart meters there will be an additional requirement to update a meter with new tariff details as a result of the switch. While this has been considered on page 18 in the context of the efficiency of market arrangements, it should also be considered whether two day or next day switching creates any risks with regard to reliability that need to be mitigated when assessing these reform options.

The ability for customers to be able to cancel their contracts within the cooling off period will be critical to the reliability of the switching process in the future. Any new switching system must take account of this requirement and ensure that customers can be seamlessly returned to their previous supplier in an automated manner. Customers not only need to have the confidence that their switch will work as they expect it, but that if they exercise their right to cancel this will also be dealt with reliably.

Speed

The risks around reliability need to be considered when making any assessment of the reform options in regard to the speed of the process. The speed of the process is a key consideration, especially for those customers that are switching in order to be able to take advantage of lower prices or new products. However, a very quick process is only appropriate if that process also delivers the right outcomes in terms of reliability and accuracy.

As noted above, setting clear expectations for our customers when they enter the switching process is important. For example, there will be a need to be very clear as to exactly what is meant by 'next day' and how achieving a next day switch may be affected by the time at which customer starts the switching process.

There are a number of factors that might impact this timeline including the channel by which the customer has entered the switching process. Approximately 50% of switches are triggered through contact with third parties, such as brokers or aggregators, meaning that the initial contact with the switching process is not directly with an energy supplier. The role of these third parties in the switching process will need to be examined as part of the definition of the Target Operating Model. For instance, additional governance may be required for these third parties to deliver the outcomes that Ofgem is seeking.

As noted in the consultation there are specific customer types, such as business customers, that may not benefit from very fast switching. We believe that these reforms should focus on removing the barriers from faster switching rather than mandate very fast switching for all. The competitive market will encourage suppliers to switch customers as quickly as possible but suppliers need to retain the flexibility to manage certain customer types effectively.

This need for flexibility is alluded to on page 23 of the consultation but what this actually means in terms of how suppliers might manage different customer types needs to be more clearly defined in the Target Operating Model. Any centralised registration system will include all customer types, including Half Hourly and Daily Metered customers, and needs to be designed to account for the differing needs of those customer types.

Consumer expectations and future flexibility

EDF Energy broadly agrees with Ofgem's assessment of the options with regards to consumer expectations and future flexibility, especially regarding the time taken to switch. However, we note that there does not appear to be any clear customer expectations regarding the ability to be able to switch next day. This does not mean that we should not aspire to achieve next day switching if that is a proven cost-effective and reliable outcome; however, it would appear that at present other options such as two day switching would still achieve and in most cases exceed current customer expectations. Therefore, in assessing the reform options Ofgem should not be prioritising speed above all other considerations; especially as customers have clearly expressed the reliability of the process as their most significant concern.

Regarding the future flexibility of the reform options, in addition to the considerations noted in the consultation document, we consider that a new centralised registration system should be designed to more easily and cost effectively support other future market changes, such as settlement reform and the centralisation of data processing and data aggregation services. While any centralised registration system should be designed with the efficiency of the switching process as its main objective, it should also be able to support the delivery of other aspects of Ofgem's Smarter Markets changes.

Efficiency of market arrangements

EDF Energy agrees that centralising registration services will improve the efficiency of the market arrangements. Suppliers operate in a dual fuel world and the differences in the current gas and electricity switching processes increase the complexity and the cost of the switching process, and make it difficult to deliver an effective dual fuel switching experience. A new centralised switching system that facilitates true dual fuel switching will be more efficient to operate, and deliver a better customer experience.

We also believe that in order to ensure the switching process is as efficient as possible; it should only involve the two relevant suppliers and the registration system. The current reliance on the transfer of data to facilitate the switch, specifically between supplier agents, must be removed.

Implementation Risks

EDF Energy agrees with Ofgem's assessment that the two day and next day options, and the move to a centralised registration system, create implementation risks over and above those associated with the 'low change' options. We are particularly concerned about the level of industry change that is being delivered over the next few years, especially regarding the rollout of smart meters, and the availability of resources across the industry to support these reforms. As noted in chapter 5 of the consultation, the involvement of industry experts will be fundamental to delivering the right outcomes.

However, we also agree that these risks are likely to be outweighed by the benefits to be gained by making these significant changes, provided they are managed robustly. As detailed in chapter 5 of the consultation, identification and management of risks will be critical to the successful delivery of the proposed reforms. Establishing an appropriate and robust risk management framework at the beginning of the programme should ensure the risks do not create a barrier in developing the proposed reforms.

Q2: Do you agree with our proposal to implement next-day switching on a new centralised registration service operated by the DCC?

EDF Energy supports the move to centralise and unify the registration systems to facilitate alignment between electricity and gas and to deliver a dual fuel switching experience. We see significant qualitative and quantitative benefits from moving to a single registration platform and process in terms of both customer service and reduced costs of future change. Aligning gas and electricity account switching, and providing a quick, simple and cost effective solution, is the right thing to do for customers. This will not only enable them to quickly realise any benefits from switching supplier but also continue to empower customers to engage in the market.

A new centralised registration service operated by the DCC licence holder would also facilitate better alignment of the switching processes with the rollout of smart metering, unlocking any benefits that smart metering might be able to deliver to the switching process. The centralised registration service will also be better placed to facilitate future market changes, such as settlement reform.

We agree that the proposed centralised registration service could be operated by the DCC licence holder; however, the process by which the DCC will procure these services needs to be made more explicit. We believe that the DCC licence holder would need to undertake a competitive tendering process in order to meet their obligations to deliver these services in an economic and cost effective manner.

It must also be ensured that placing obligations on the DCC licence holder to deliver a centralised registration service does not create any risk to the provision of their key deliverable, which is a robust end to end system for the management of smart meters. As noted above, we believe that there are synergies to be gained by having the DCC operate the new centralised registration service, but these must not be at the expense of delivering the smart metering infrastructure that suppliers need to meet their obligations to roll out smart meters.

As mentioned above, we have some concerns regarding the move to next day switching and whether this is the most cost effective option for customers. The cost information provided on pages 20 and 21 of the consultation document indicates that the most attractive switching timescale for a new centralised registration service would be two day switching. This not only has a lower investment cost than next day switching but is also the only reform option that delivers an OPEX reduction. There is no clear evidence in the evaluation criteria presented that next day switching will deliver additional benefits to customers over and above two day switching.

We believe that next day switching would only be an appropriate aspiration if this represents an affordable outcome for customers. We would urge Ofgem to undertake further analysis of the costs and benefits associated with next day switching, specifically in comparison to two day switching, to ensure that the option progressed is the one that delivers real and quantifiable benefits to customers.

Q3: Do you consider that fast (e.g. next-day) switching will not have a detrimental impact on the gas and electricity balancing arrangements?

EDF Energy believes that faster switching is likely to have a limited impact on the gas and electricity balancing arrangements.

Faster switching will create an increased level of uncertainty regarding customer numbers on a day to day basis, which will impact on our ability to balance our position. At this stage it is difficult to anticipate how significant that uncertainty would be, however, our assumption is that this would be very small compared to the total number of customers that we supply.

On this basis, we believe that there would be a very slight increase in forecast error and imbalance as a result of introduction of faster switching; however, relative to the existing level of imbalance error this increase will not be significant. However, this assessment should be revisited as the Target Operating Model is developed to ensure that the proposed reforms do not increase the level risk in this area, which could result in additional costs which are ultimately borne by the customer.

CHAPTER: Four

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

EDF Energy agrees that a central electricity metering database for traditional and AMR meters should not be included in the proposed package of reforms.

We agree there are a number of issues that access to accurate metering data creates in the switching process, and that there are clear benefits to be gained from making improvements to the transfer of this data between market participants. However, we do not agree that a centralised metering database for electricity is the best way to achieve this outcome.

We note that the gas metering database managed by Xoserve is used as an example of a centralised metering database. Our experience is that there are a number of issues related to the quality of the metering data held in that central database; where the data often mismatches with the data that is received from the Meter Asset Manager (MAM) who should be the source of metering data.

This indicates that there are issues with the data quality held in that central database; and it is not clear how these data quality issues would be avoided in any centralised electricity metering database. Our experience, and that of our metering agents, is that the majority of issues that arise in regards to the transfer of metering data are related to data quality and not timeliness. Even where data has failed to be sent or received, investigation has shown that the main cause of these issues is data quality at a previous stage in the process. It is not clear how a centralised metering database would address these issues. It is also worth noting that there are significant levels of exceptions related to the high level metering data that is sent by Meter Operators to ECOES, often related to data quality.

A centralised metering database would only address the timeliness issues and there are other reforms, such as those already being progressed for Faster Switching, which should make significant improvements in this area. Furthermore, more robust scrutiny of the quality of data transferred between Meter Operators as well as the timeliness, as part of the BSC Performance Assurance Framework (PAF), might place more focus on these issues and further improve access to metering data for traditional and AMR meters.

EDF Energy also has significant concerns about the development timescales for such a database, especially as this is only determined as having value for traditional and AMR meters. These meter types will represent approximately 50% of the total metering population at the point the centralised database would be planned to be implemented and in line with the smart metering rollout that number will decline by tens of thousands of meters every day following implementation. There is a significantly high likelihood that customers that have their metering data managed in such a centralised database will have their smart meter installed and drop out of the scope of this database without going through the switching process. There is also uncertainty regarding AMR meters; if as proposed under BSC Modification P272 the majority of these meters are operated under the Half Hourly processes, this may further negate the value to be delivered by a centralised metering database. Given this, we believe the benefits to be gained from such a database are unclear and there is no robust cost benefit justification for implementing such a change.

Access to accurate and timely metering data has an impact on the overall switching process, and the ability of the gaining supplier to set up a customer's account and issue bills. While the registration system might have been updated to show a new supplier is responsible for a customer, until the losing supplier is able to issue a final bill and the gaining supplier is able to set up an accurate billing record, the customer can not be regarded as having successfully switched supplier. While EDF Energy does not support the creation of a central electricity metering database, we do support a fundamental review of the way that metering related data is managed for both gas and electricity meters.

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?

EDF Energy does not support the development of a central electricity metering database as the benefits to be gained from the implementation of such a database, based on the information provided, are particularly unclear. If such a database were to be progressed then more detailed analysis of the issues that affect the transfer of metering data would be required to determine how these would be addressed.

Analysis of the issues that affect the interoperability of AMR metering on change of supplier, as undertaken by the Issue 46 group under the BSC, would appear to indicate that the issues related to AMR metering in regard to the switching process are not about the timeliness of data. Instead the key issues are around the transfer of communications contracts between metering agents, and the inconsistency in the way that meters are programmed which make them difficult to read by the new agents. It is not clear how a centralised metering database would address these issues.

While EDF Energy does not support the creation of a central electricity metering database, we do support a fundamental review of the way that metering related data is managed for both, traditional and smart meters and that such a review should cover both, electricity and gas meters. Smart metering changes the nature of ownership of metering data as it enables direct communication between suppliers and their meters, with suppliers being less reliant on knowing how a meter was configured by a previous supplier. It also introduces the DCC as a new participant in this process through their Smart Metering Inventory.

Access to accurate metering data on a timely basis is critical to support faster switching on smart meters. A gaining supplier will need to be able to access information regarding a smart meter in order to update the security credentials and configure the meter with their tariff details. For reliable and accurate faster switching, it is critical that the gaining supplier is able to access accurate metering information on a timely basis, to ensure they are able to configure the smart meter to the correct tariff setting from the start of their supply period.

The critical data items that are required by gaining suppliers should be made available through the DCC's Smart Metering Inventory, which will contain specific details relating to smart metering devices installed at customer premises. EDF Energy believes that as part of the definition of a Target Operating Model to support faster switching, industry should be looking further than just the centralised registration system.

There is also a need to consider the role of supplier agents in industry processes such as customer switching. This should include determining what metering data is required by the parties involved in the end to end process of managing a customer's meter, with particular focus on the switching process. Any such review should take into account the requirements of Meter Asset Providers (MAPs) to be able to access information regarding metering assets that they own. The ability of MAPs to be able to access accurate information regarding their assets has consistently been raised as an issue; failure to

access this information effectively and manage their risks could result in increased meter rental charges that will ultimately be reflected in customer bills.

CHAPTER: Five

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

We broadly agree with the principles that have been proposed in the consultation document, but would like to raise the following points.

Switching supplier is fundamentally a customer serving process that enables customers to realise benefits such as cost savings or gaining access to new products and services. Consequently, any new switching arrangement must deliver an outcome that is right for customers; and any other considerations such as settlement must be secondary to this fundamental principle.

The principle that new arrangements should be implemented as soon as possible does not recognise the need to ensure that the correct solution is being implemented, in the best way possible for the customer. While it may be beneficial to customers to implement new switching arrangements quickly, any benefit may be negated if the reforms, in terms of the changes themselves and their implementation, are not right first time. The focus on quality and affordability of the changes must override considerations about implementing those changes quickly.

EDF Energy agrees that best use should be made of energy industry expertise; however, there is a need to also make use of expertise from other industries such as banking and mobile telephony, both nationally and internationally, in order to develop a switching process that can be classed as an example of best practice in the future. By only consulting energy industry experts risks limiting the potential for developing a revolutionary, rather than evolutionary, change to customer switching.

We agree that a fundamental principle of any programme of this scale must be the identification and management of risks. A robust framework must be in place to manage identified risks and we would recommend not only looking at recognised best practice regarding risk management but also lessons learnt from other similar change implementation programmes.

EDF Energy believes that an explicit implementation principle should be one that seeks to minimise costs and deliver fair value for customers. Any proposed reform must focus on the affordability of the changes that are being made. Minimising the cost of implementing changes must be a guiding principle; otherwise the benefits that customers will expect to receive from an improved switching process will not be delivered, risking further consumer disengagement.

Q2: 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)?

EDF Energy broadly agrees with the risks and issues that have been identified in the consultation document. Our experience of significant industry change programmes, such as the ongoing Smart Metering Implementation Programme (SMIP), would indicate that these risks are likely to materialise, especially in regard to cost over-runs and risk of delay. These two areas of risk are the most likely to directly impact the benefits that customers should realise through the implementation of the proposed reforms.

Effective mitigations must be put in place to ensure that costs are minimised and that the programme delivers on time. As we have found through the smart metering programme, it is vital that realistic implementation dates are set based on robust planning and achievable timescales, otherwise delays ensue with a consequent reduction in the benefits that the programme is projected to deliver.

We also regard the risk of competing industry priorities to be one that is highly likely to materialise, especially given the overlap in the timescales between those proposed for fast switching and the ongoing SMIP. There is a limited amount of resource available within any organisation, and there is a need to ensure that the appropriate expertise is available to implement fast switching. As noted earlier in this response, the focus should be on delivering the right changes. It is our contention that doing this over a longer timeframe is preferable to making the wrong changes quickly, and managing the resulting consequence of that.

In addition to the risks that have been identified, we believe that if the implementation of reforms to customer switching is taken in isolation from other industry changes such as settlement reform, there is a risk of increasing the overall costs of these changes where elements of systems and processes need to be re-worked. We would recommend that there is close co-ordination between the various workstreams within the Smarter Markets Programme, leading to the development of a clear roadmap for change covering at least the next ten years.

We also believe that there is a risk regarding the large number of stakeholders involved in the implementation of the proposed reforms. As noted in the consultation document, the list of stakeholders includes consumer groups, suppliers, network operators and TPIs. This then potentially creates a risk of 'design by committee', whereby any changes will be the result of a compromise to try and satisfy all stakeholders rather than what is the best outcome for the consumer. A strong governance structure that ensures that the implementation programme is focused on consumer outcomes will be critical to mitigating this risk.

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

EDF Energy agrees that the implementation stages identified in the consultation document are appropriate. There must be a stable and robust regulatory framework in place before the design and build of any systems. For example, within the smart metering programme,

the absence of a stable regulatory framework before entering the design phase has meant re-work has had to take place, ultimately increasing the cost of delivery of that programme.

However, the detailed design phase may drive further changes to the regulatory framework. The implementation programme therefore needs to establish a stable baseline to form the basis of a design, while at the same time being flexible enough to be able to incorporate changes that will lead to the delivery of the optimal solution. An appropriate focus on stage one and the detailed regulatory design should minimise the need for later re-work.

The testing of the systems and processes as part of stage three is absolutely critical to ensuring the delivery of a robust solution. It is frequently the case that testing is sacrificed in order to try and achieve an implementation date. Not only does sufficient time need to be allocated to ensuring that the changes are robustly tested, it also needs to be ensured that all market participants have achieved a minimum level of testing before the changes are implemented. An incorrect action by any supplier during the switching process can impact the other supplier involved. A robust assurance mechanism is therefore required to ensure that all parties have achieved the appropriate level of system and business readiness.

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?

EDF Energy believes the most appropriate way to run the next phase of the process is for Ofgem and the DCC to form an expert group from key stakeholders that will define the principles on which the Target Operating Model will be based, developing the vision for fast switching provided by Ofgem. These principles need to be simple and easy to communicate. Without a clear set of guiding principles there is a danger that the Target Operating Model does not reflect the original vision and strategy.

This group will also need to clearly define the scope of the Target Operating Model at the very start of this process. As noted above, the current registration systems carry out a number of functions, not all of which are focused on the customer switching process. The Target Operating Model for a centralised registration system must be focused on delivering a simple and reliable switching process; this may then support other processes like settlement, but must not be driven by them.

In defining the Target Operating Model, it will be important to look at the experience of other markets that have customer switching, such as banking and mobile telephony. However, input from other sources that might provide a fresh insight should also be explored, for example experts in digital technology. The aim should be to leverage new and innovative technologies and ways of working wherever possible.

The Target Operating Model developed in this first stage will form the fundamental basis for the development of the system and process changes to support fast customer switching. The firm baseline developed in this stage will form the basis for the rest of the development programme, dedicating appropriate time, effort and expertise to this stage will be critical to the delivery of these reforms.

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?

EDF Energy supports Ofgem's proposal that the DCC is directly involved in the design of the Target Operating Model, as we believe that it is necessary to have an independent intermediary involved in the process who ensures that the design adheres to the appropriate principles.

Relying on the industry to take responsibility for the detailed changes has the potential to produce 'design by committee' and a set of sub-optimal outcomes that will not meet customer expectations.

While we agree that the DCC is best placed to undertake this work, guidance is likely to be required from Ofgem in the early stages. This guiding hand will be required as the DCC is a relatively new entity with an as yet unproven track record in delivery. The status of the DCC as a licensed entity will provide Ofgem with the level of control required to ensure that the Target Operating Model meets their stated vision and strategy.

As noted in the consultation document, the most significant risk is that using the DCC will distract it from its primary purpose, which is the successful delivery of an infrastructure that supports the smart metering rollout. Before making a final decision in this area the DCC will need to demonstrate clearly how they will manage this risk and provide adequate resourcing to manage these two critical pieces of work.

Q6: Do you agree that an SCR is the best approach to making the necessary regulatory changes to improve the switching arrangements?

The SCR process would seem to be the most appropriate mechanism for enacting the code changes required to deliver the proposed reforms. The SCR process was designed to coordinate strategic changes to the industry codes and manage interactions between codes and licences, and so would appear to be suitable for the purposes of these reforms.

It is not clear that the alternative options will be any more efficient and may actually take more time or risk delays. The option of using targeted licence conditions or a Secretary of State direction is that such approaches will necessarily be high level with scope for different interpretations. The SCR is an agreed process that is designed to engage industry effectively before raising detailed and specific industry code changes; on this basis we support this option.

Q7: Do you agree with the proposed implementation timetable? Are there ways to bring forward our target go-live date?

We believe that it is appropriate to set an aspiration to deliver these reforms by Q3 2018, and to challenge industry to endeavour to achieve this implementation date. However, as previously noted, we believe that attempting to achieve an implementation date rather than focusing on delivering the right changes in the appropriate timescales creates a significant risk of delivering a sub-optimal solution. This will not meet customer

expectation or deliver the benefits that customers expect to be able to receive as a result of these reforms.

As a result of this, it will be necessary to manage customer expectations regarding the implementation of these reforms appropriately. As the research quoted in the consultation document shows, customers do not currently have clear expectations regarding very fast switching which gives the opportunity to deliver something that exceeds customer expectations. If we set expectations around implementation dates too early in this process, as has happened in the smart metering programme, then any delay to those dates is regarded as a failure. We must manage customer expectations to ensure they are still keen to engage with the reformed switching processes once they are delivered.

APPENDIX: Three

Q1: Do you agree that we have accurately identified and assessed the main reforms that could improve the switching process?

EDF Energy broadly agrees with elements of the analysis that has been undertaken regarding the main reforms that could improve the switching process; however, we believe that there are a number of additional considerations that should be noted when progressing reform of the switching process.

Clarity is required around switching and what the start and end points of the switching process are. This section of the consultation focuses very much on the elements of the process that involve supplier interaction with the registrations systems and how these might be improved. However, the switching process starts before this interaction commences, and ends after the registration system has been updated. It is only when the losing supplier has issued a final bill and the new supplier is in a position to issue an accurate opening that a customer can be regarded as having fully switched.

The customer switching journey often starts with interactions with TPLs such as switching sites. The role of these parties in the switching process and the data they capture also needs to be accounted for in the switching process. The Target Operating Model should consider the role of these parties. A potential option may be to give those parties some form of direct access to the registration system to help improve the quality of contracts captured and reduce the incidence of erroneous transfers. This should include consideration regarding any replacements that will be required to deliver the functionality currently provided by ECOES and DES.

The Target Operating Model will also need to take account of how accurate opening and closing readings will be generated, especially for smart meters. As noted in the consultation, reforms are currently being progressed by industry in this area; however, these are shorter term solutions that are designed to fit within existing industry processes alongside legacy metering processes. A centralised registration system provides the potential to reform this element of the process even further, in the context of a changing role for agents such as Non Half Hourly Data Collectors, which is driven by settlement reform.

Consideration should also be given to the interactions that occur directly between suppliers as part of the switching process, for example in regard to notification of old supplier information, disputed readings and erroneous transfers. Consideration has been given to how the DCC's User Gateway might be used for interaction with the centralised registration system; however, communication between suppliers and other parties involved in the switching process should also be considered when progressing any reforms.

We in principle agree with the benefits that are noted for a centralised registration system, and support the progression of this reform option. One of the benefits is supporting the updating of a smart meter with the new supplier's security credentials on a change of supply and we believe that it may be possible to go even further and realise further synergies between switching and smart metering. The update of the smart meter with the new supplier's details becomes real time evidence that the customer has switched successfully, making it vital for the overall switching process that this occurs in a timely and accurate fashion. If the smart meter is not kept in step with the registration system from a customer perspective it will not be evident that they have actually switched.

We believe that Ofgem's analysis of objections should have included consideration of related MPANs, which must be switched together. A Supplier will object where only one of a set of related MPANs is being switched and needs therefore to monitor the switching process on all related MPANs, which can be complex. There are currently numerous data quality issues affecting the identification of related MPANs. We believe smart metering rollout and a centralised registration system will dramatically improve this data quality and enable the management of switching for customers with related MPANs to be greatly improved. Also as noted in the consultation, the use of the change of tenancy indicator as part of the switching process, especially for business customers, will need to be considered.

We also have concerns regarding Ofgem's assertion that the additional costs of next day switching over two day switching are essentially solely driven by the costs of a central objections register. We believe that the costs in this area should be reviewed as we do not believe that the level of detail provided in the RFIs that were issued were sufficient to provide parties with an accurate view of how these processes and systems would work in practice, leading to inconsistency in the responses provided. We believe that a further review of the potential costs in this area, based on a more detailed common understanding by all parties, would lead to a more accurate set of cost information. We have concerns about the way that the results of the RFI have been interpreted and the conclusions that have been drawn.

As noted previously, EDF Energy believes that the role of supplier agents should be reviewed and amended as part of the reform of the switching process. The switching process should only involve the losing and gaining suppliers and the registration system. The current reliance on appointing agents and data transfer occurring between those agents should be removed in any reform of the switching process. The role of agents will change as a result of smart metering, for example the role of metering agents in management of the configuration of meters is removed for smart meters, and the role of data collectors will change as a result of settlement reform. We believe that this review of

the switching process should include a fundamental review of the supplier hub, and what the role of supplier agents should be in the future.

APPENDIX: Four

Q1: Do you agree that our approach, methodology and assumptions are appropriate to identify the quantified impacts of our reforms?

The consultation documents provide a reasonable level of detail on approach, methodology and assumptions in a text format. However, we have not been provided with a working model that gives us the ability to see how these have been applied in practice to arrive at NPV figures. Given the complexity of the model, it is difficult to properly validate Ofgem's methodology without being able to trace assumptions and calculations through a working model. This would enable more detailed analysis and provide us with more confidence around the NPV figures quoted.

As noted elsewhere in our response, information provided in response to the RFIs issued by Ofgem was given without a view on the detail of the different reform options or a definition of the Target Operating Model. As such, the responses included a significant level of interpretation and assumptions. The key caveat therefore is that the overall level of confidence in inputs and eventual output will be low and can be expected to change by a material amount as the detail becomes clearer.

Current NPV cost analysis provided by Ofgem suggests two day switching on a new platform is more cost effective for the customer compared to a one day switching service, with costs of the reform packages for a dual fuel customer for both CAPEX and OPEX being lower. Ofgem suggests the benefits of next-day switching on a new centralised registration service will significantly outweigh the identified costs (paragraph 3.26, page 19/20 in the main consultation document), but no evidence is provided as to whether such benefits are significant enough to outweigh the NPV difference between option 1a and 2a of £75m (page 47, Figure 2 in the appendices document).

A key assumption within the modelling is associated with the objections window. The same cost assumption has been used for both, two day options and also five day switching. EDF Energy believes that the costs will vary across these different options, though dependent on their definition, and this opinion is expanded in our response to question 3 below.

Ofgem's figures indicate that the objections process is the main driver of additional costs for next-day switching; and that there is an intention to review suppliers' ability to block consumer switching, which reduce the cost differential of next day switching versus two-day. It should be a consideration when defining the Target Operating Model that removing the objection process could lead to increased bad debts for suppliers or other unintended consequences, which will increase cost pressures.

All options except two day switching on a new platform and five day switching include potential efficiency gains. The logic for excluding efficiency potential for these options only is not clear. As these options have the lowest cost NPVs at present, including an

efficiency benefit would further increase the gap between these and the other options. It is not clear on how the split of the efficiency potential relates back to the RFI stakeholder categories.

These proposals would require significant industry resource to implement yet there are likely to be competing priorities over this period for the DCC and suppliers with the rollout of smart meters. This may not have been factored in, but this will be a factor in driving up the cost of implementation. We would suggest a risk scaling factor is applied, linked to the timeline and extent this will lead to competing priorities and impact on the industry's ability to manage change in the most cost efficient manner given the pull on scarce resource and managing of concurrent changes across multiple change projects.

Q2: 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?

As noted above, for EDF Energy to be able to provide a full response to this question it would require sight of Ofgem's detailed cost model. Based on the information provided in the consultation documentation, we have the following concerns with the approach taken in assessing the direct costs.

Ofgem's assessment of the NPV costs suggests that the costs of upgrading the registration systems and developing new standards for speed and reliability are relatively low, whereas options 1b & 2b for real time processing (existing) are almost five times the cost at £101m. The exact levers driving this differential are not clear. Development of new systems is often a higher risk option than modifying an existing system, so such a large cost differential is unexpected. Based on the data provided and our interpretation of the data, the NPV cost that we derived was higher for implementation of a real time processing system when compared to upgrading the existing registration system.

Additionally, in Ofgem's guidance regarding costs to retain overnight batch processing (appendix, page 39) it is stated that "Industry data was not collected for this reform option, and current registration systems operate on an overnight batch basis." This implies the overnight batch processing is already in operation; this could mean that the benefits to be gained from the reform packages are over stated against this base case.

Q3: 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?

EDF Energy does not agree with the assumption that the costs for a two day and one day objections window would be similar. However, given the lack of definition as to how a one day objections window would actually operate in terms of the timeliness of interactions, it is hard to comment on this in detail.

As can be seen from the cost information provided by industry parties, there is a significant difference in cost between two day objections and within day objections. In our experience the difference in cost between the options was driven by the need to move

from batch processing to within day processing, this has a significant CAPEX and OPEX cost to deliver and support the system upgrades required. Some cost was also attributable to the need to automate certain processes that are currently undertaken manually in order to meet the shorter timescales.

If the one day objection window would retain the ability of our system to process objections as part of an overnight batch process, then the costs will be broadly similar to those for two day switching. However, any requirement for real time or within day interactions will make the costs more in line with those required for within day processing which are significantly higher.

Q4: 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?

EDF Energy agrees with Ofgem's assumption regarding the proportion of supplier meter read costs that should be attributed to smart meters. Although AMR metering accounts for much less than 10% of the actual metering population, these meters do account for a disproportionately high level of the manual intervention required by our metering agents.

As noted elsewhere in this response, the underlying causes of this additional manual intervention relate to the configuration of registers on AMR meters and to contractual issues regarding communications.

Q5: 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?

EDF Energy agrees with the assumption regarding the reduced efficiency of operating a central electricity metering database as the smart metering rollout progresses. However, we do not believe that the population of legacy meters will reduce to zero in 2021. There will be a population of customers who will not have smart meters installed; either for technical reasons or because they choose not to have a meter installed.

As set out above, we do not support the introduction of a central electricity metering database for traditional meters on the basis that this will not address the fundamental issues that affect access to accurate metering data as part of the switching process. We also do not believe that such a database would support smart metering as the nature of that metering data, specifically in regards to the configuration of meter, is very different to legacy metering where the Meter Operator is the owner of that configuration.

On this basis any central electricity metering database would only be able to support legacy metering, and any potential benefits that are gained will decline as that metering is replaced.

Q6: 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?

The answer to this question is very much driven by the same considerations as noted in the response to question 3 above, specifically in regards to the implications that a one day objections window has for the speed of processing.

If the one day objection window does not involve moving to real time processing in our systems then there is no really efficiency to be gained by delivering this change at the same time. This is because the driver for the CAPEX would be the automation of the objections process, which would not have any commonality with the changes required to deliver real time processing.

If a one day objection window did require the implementation of real time processing and messaging within our systems, then there would be likely to be some efficiency to be gained. This is because such changes would have some common ground with the changes required to registration processing. The efficiency potential to be gained by delivering these changes would be likely to be similar to that provided in our previous submissions. This efficiency potential would exist whether the real time registration processing were delivered under a centralised registration system or retained under the existing systems.

APPENDIX: Five

Q1: 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?

We have found it difficult to provide a response to this question, without a copy of the working model which provides details of the baseline numbers. The scenarios seem to cover a wide range of possible outcomes, although we note they are based on a relatively narrow range in percentage sensitivities. Given the lack of a detailed Target Operating Model, assumptions made have had to be relatively broad and the sensitivities used suggest a degree in overall confidence in the level of NPVs which this process is not sufficiently mature enough to provide. As detailed in our response to question 2 in appendix 4, the differential between registration options would seem to be a key sensitivity.

**EDF Energy
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