



Ofgem Consultation – Moving to reliable next day switching

Response from E.ON

General Comments

We welcome this initiative from Ofgem as a key component in unlocking the benefits for energy customers that smart metering will bring.

The current centralised industry registration systems were developed and built in the mid-1990's and reflects the market, technology and customer aspirations of the time.

Over the subsequent 20 years the market and technology have evolved and the needs and expectations of customers have changed.

The energy market needs to adapt to these changes. The reforms outlined in this consultation, once implemented, will help achieve this.

The energy market has evolved from having a discrete gas and electricity approach to being a dual fuel market where most energy retailers provide both fuels and many customers choose a bundled product. Bringing the activities together that support the structure of the current market will allow efficiency savings and improve services for customers.

The decision to move to a new service provider also paves the way for more advanced IT technology to be used. Comparisons between the central switching services used in the GB market compared to that used in other EU countries demonstrates how far behind we now are. Countries such as France and Holland introduced competition to their retail energy markets later and the IT systems that they developed to support their markets are more advanced and responsive to market and customer needs.

Moving to more modern central systems will allow better services to be provided for energy suppliers who in turn will be able to provide a better experience for their customers.

The most visible of these will be the option for next day switching but there will no doubt be many more that will evolve as the new systems are implemented.

We support the move to centralise the industry registration services within the newly established Data and Communications Company (DCC).

The idea of obligating the networks owning businesses to operate the switching services that underpin the retail energy markets was logical at the outset of competition. They were



independent from any incumbent energy supplier and the costs of the service could be controlled via regulation.

The fundamental drawback from this model has proved to be an inability to innovate, change and deliver improvements in the service for suppliers and energy customers.

Moving the obligation to provide the service to the licenced DCC should address this shortcoming. Hopefully bring innovation to this aspect of the market, whilst maintaining the principles of independence and regulatory cost control.



Response to Consultation Questions

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

Yes, we agree that the switching process is vital in ensuring that customers have confidence in and actively participate in the energy market.

There are significant differences in the systems, IT interfaces, business processes, timescales and approaches that are currently used in the gas and electricity market to facilitate customer switching.

This creates complexity for energy suppliers to manage, which in turn makes it challenging for us to always provide the level of service that we would like to for our customers.

The complexity and the age of the current central switching services ensure that the customer switching process is lengthy with many interdependencies between parties. From the customer's perspective it takes more time than it should to switch to their preferred supplier.

Reforming the switching processes will reduce costs for energy suppliers and improve the experience and service that customers receive.

2. 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?

Yes, we agree that the centralisation of services and the implementation of next day switching is the most efficient way in which to provide services.

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

Yes, we agree that this should provide a robust governance framework and incentivise behaviour that supports better outcomes for energy customers.

A centralised service provider with a common set of systems, interfaces and business processes reflects the needs of the retail energy market. It will reduce costs for energy suppliers in managing the switching process and allow us to improve the service that we offer to our customers.



We note that Ofgem explicitly highlighted 2 types of customer for whom next day switching may not be appropriate, existing prepayment customers and business customers.

With the advent of smart Pay As You Go services the number of customers serviced via the existing prepayment infrastructure will rapidly decline in the future. Considering the timescales for the delivery of this project they are unlikely therefore to present a significant issue to its successful delivery.

Business customers will be directly impacted by the new proposals.

We have concerns that including them in requirements for next day switching may increase risk for individual suppliers, the general market and is not something that the customers in this segment are likely to actually need.

The volumes of energy used by some business customers are significantly greater than that of residential customers. Errors, however they are caused, in a future with a next day switching option may see business customers unintentionally transferred between energy suppliers before they are aware of what has happened.

The financial implications of such events may endanger the financial viability of some energy suppliers. An increase in the number of failures of energy suppliers in turn would have a negative effect on the market and eventually all consumers.

To allow next day switching of business customers will therefore require additional safeguards to be built into the switching process. These will no doubt require additional system development costs and enduring administration costs.

As business customers contract for their energy use for defined periods of time and typically engage with the market prior to their contract renewal it seems unlikely that they would require the ability to switch supplier the next day.

Therefore with an additional cost likely from facilitating next day switching for business customers and no clear advantage or benefit to them for providing this we are not convinced that the requirement for them to have the choice of next day switching is justifiable.

We do believe that business customers should share the same common single registration service provider as that provided for residential customers.

This will ensure that the costs to them of using the service are kept as low as possible and that they can benefit from other improvements that the new service will bring. It does not



mean however that the exact industry processes for business and residential customers need to be identical.

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

Yes, we agree next day switching should not have a detrimental effect upon gas and electricity balancing.

This support is caveated by our caution around the inclusion of large consuming business customers in the proposals. Errors for residential customers can be resolved, the customer transferred to an alternative supplier and the financial implications for the suppliers involved will be modest and manageable.

For large consuming business customers the same may not be true with implications for the financial viability of individual suppliers and consequences for the wider energy balancing arrangements.

To mitigate this risk the new objections process would have to be proven to work robustly. What additional safeguards may be needed for very large consuming business customers is not clear at this point as the detail of the Objections Register has not been defined.

What can be assumed is that this will require additional system enhancements, business processes and administration. Considering it is unclear that the affected customers would want the ability to switch supplier the next day we remain unconvinced that this function is needed.

Therefore we believe that limitations on the ability for very large consuming business customers to switch supplier on a next day basis would mitigate the risks to the gas and electricity settlement and balancing arrangements.

5. 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 the analysis included in the consultation indicates that it may not be justified to develop a central electricity metering database. However we question whether this analysis perhaps asked the right question.

The existing gas registration systems do include data regarding the metering assets at a customer's property. This information is valued and required by Suppliers in the gas



market. It is therefore unlikely that this requirement will be de-scoped from the new central registration service.

If the new service is therefore holding information about metering assets for one fuel then it seems unlikely that expanding this to include the same information for electricity meters would be difficult or expensive to achieve.

We therefore disagree with the conclusion within the consultation and would like to see this information included in the future single registration service.

Furthermore as this service is to be provided by the DCC, who already have information concerning the smart electricity meters, it would seem to be even less of a technical challenge than the analysis suggests.

6. 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 there would be any benefit in extending the central electricity metering database to cover smart meters?

Yes, as it is proposed that the DCC will provide the new central registration service and it already holds information regarding smart electricity meters it would seem logical for it to hold similar information on all meters.

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

Yes, these seem a good set of principles to underpin the implementation of the project.

8. 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, cost over runs, delays and implementation risks are issues that all programmes must manage and we agree that they will apply here.

Recent experience has shown that the political environment around energy is particularly active. This may lead to unforeseen new priorities for the industry to manage during the implementation phase of this project.

It is therefore welcome to see the inclusion of competing industry priorities as one of the key risks to the successful delivery of the proposed reforms.



9. Do you agree that Ofgem has identified the right implementation stages?

Yes, the stages and their order seem sensible and include the required areas of activity to ensure that the desired outcomes will be implemented.

10. 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 agree that Ofgem will need to oversee the next phase of work as they are best placed to assess the inevitable trade-offs and to make judgements that are in the best interests of customers and the market.

It is important to recognise that industry stakeholders will be critical to delivering knowledge, support and buy in to make the project a success.

It is right to highlight that someone will be needed to draft and deliver the details of the new industry processes. This Target Operating Model will take time and effort to deliver.

The costs for delivering this part of the project will need to be controlled and recovered in an equitable and transparent manner. The DCC provides an existing process to achieve this. By definition it should be very well placed to procure the required skills in IT design, process mapping and legal drafting needed for this phase of the project.

11. 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?

Making the DCC accountable for the delivery of the Target Operating Model will ensure that someone within the industry is responsible and has a vested interest in ensuring that products are delivered on time.

As it is proposed that the DCC will be the entity that delivers the new central services it should ensure that they provide products that are to a robust standard as they will suffer the consequences of any future failures.

Disadvantages for the DCC delivering this stage of the project are primarily around the potential to over-inflate the requirements to increase the amount of future work that they will be responsible for delivering. Robust oversight and management by Ofgem should ensure that this risk is mitigated.



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

Yes, changes to the existing switching processes will involve complex and far reaching changes to multiple existing industry codes and licences. The Significant Code Review process was designed specifically to manage this sort of industry change and therefore would seem to be the appropriate regulatory mechanism to use.

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

Yes, we agree that the timetable described in the consultation seems sensible to achieve the far reaching and complex reform of the industry that is being suggested.

The customer switching process is a vital aspect of the competitive retail energy supply market therefore we believe that a project to radically reform it needs to be undertaken in a thorough and robust manner.

Shortening the timetable for delivery will inevitably lead to increased risks. We would not be in favour of taking such risks unless it was clear that these could be mitigated.



Consultation Appendix Questions:

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

Yes, the work of the Ofgem Smarter Markets COSEG group and the analysis undertaken by Ofgem with the assistance of industry participants we believe has been robust in assessing the potential options.

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

Yes, this seems a reasonable approach to take.

16. 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?

Yes, this seems a reasonable approach to take.

17. 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 costs of operating these systems would be similar to two-day and a one-day objections window?

Yes, either option would require the development of new automated solutions and the costs of these would not vary depending upon whether there was a two day or one day objection window.

18. 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?

Yes, this seems a reasonable assumption.

19. Do you agree with our assumption on the reduced efficiency of operating a central electricity metering database for traditional and AMR meters as the numbers of traditional meters declines?



Yes, although the analysis should look to consider what the ultimate solution for both electricity and gas residential customers is likely to include; this would ultimately lead to a better understanding of whether these requirements are likely to be included for AMR electricity metering by default.

20. 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?

Yes, shortening the objections window combined with a real time centralised registration process should deliver overall efficiency possibilities.

21. 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, the work undertaken by Ofgem seems comprehensive.