

Andrew Wallace
Smarter Markets
Ofgem
9 Millbank
London
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Monday 11th August 2014

Dear Andrew,

Moving to reliable next day switching

Energy UK is the trade association for the energy industry. We represent over 80 members made up of generators and gas and electricity suppliers of all kinds and sizes as well as other businesses operating in the energy industry. Together our members generate more than 90 per cent of the UK's total electricity output, supplying more than 26 million homes and in 2012 invested more than £11 billion in the British economy.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to Ofgem's consultation on moving to reliable next day switching.

Energy UK supports the aim of reducing the time it takes for customers to switch supplier to as short a period as possible without compromising on reliability, consumer protection or adding disproportionate costs to consumers' bills. Indeed, via Energy UK, suppliers have led industry efforts to halve the time¹ it takes to switch supplier by the end of 2014. Whilst there are still risks to delivery, that target remains realistic. Energy UK appreciates the support that Ofgem has provided during this process, including approving the relevant industry code modifications.

In this context, Energy UK welcomes Ofgem's consultation on making further improvements to the switching process, which will take advantage of smart metering and centralised registration under the Data Communications Company (DCC). Aside from the reduced time that it takes to switch supplier, key consumer benefits will be improved accuracy of final and starting bills and alignment of gas and

¹ From 3 weeks after the 14-day cooling off period to three working days after the 14-day cooling off period

electricity switches. Bearing in mind the fact that 76.5% of the market is now dual-fuel², the latter is very important.

Energy UK's members will be providing detailed responses to Ofgem's consultation on reliable next-day switching. Energy UK would like to take the opportunity to make some brief comments. These are provided in bullet-point form below:

1. Energy UK believes that Ofgem is best placed to lead on all aspects of the project, taking a stewardship role, ensuring coherency.

Given the variety of parties that will need to be involved to ensure effective delivery, we consider this to be the only credible option.

2. Energy UK is confident that suppliers we represent will cooperate constructively with Ofgem in the delivery of the project. Energy UK does not believe that it is necessary or desirable for Ofgem to impose new licence obligations on suppliers to support the project.

Aside from the fact that we believe such a licence condition would be unnecessary, we believe that it could cause serious problems. For example, Ofgem has highlighted the fact that there are, and will no doubt continue to be, a number of competing priorities involving supplier and industry change. By imposing a licence condition in respect of one, then this may oblige suppliers to prioritise that one to the detriment of others, even if it was not in the interests of consumers to do so. Secondly, imposing a licence condition on suppliers may reduce the scope for legitimate disagreement with Ofgem about certain decisions in relation to the project. For example, suppliers and Ofgem may reasonably have different views on something, but suppliers would nonetheless be obliged to pursue the route of Ofgem's choosing by virtue of the licence condition. Such an erosion of long-established checks and balances would be (we believe) unprecedented and undoubtedly of serious concern.

3. Energy UK suggests that Ofgem may have unfairly characterised the current switching process.

Recent research that we commissioned from Ipsos MORI found that 74% of consumers found it easy to switch their account to a new supplier, and just 10% found it difficult³.

4. Ofgem should ensure that its evaluation criteria have as little overlap between them as possible, helping to avoid the risk of skewed decision-making.

We note that there may be considerable overlap between the evaluation criteria contained in paragraph 3.8 of the consultation document⁴. For instance, Ofgem has highlighted that consumers prefer and prioritise reliability over speed. In order to ensure balanced decision-making, it is imperative that such overlaps are accounted for.

5. We note that, in a hypothetical situation where a customer cancels a contract during the cooling off period after having started to take supply during that period, Ofgem believes that consumers should be returned to their previous supplier on the contractual terms that they would have been on had they not switched. Energy UK is not yet convinced that it shares this view. We will be

² Cornwall Energy, Energy Supply Market Snapshot, as at 30 April 2014

³ <http://www.energy-uk.org.uk/publication/finish/5-research-and-reports/1111-ipsos-mori-report-consumer-experiences-of-the-energy-market.html>

⁴ reliability, speed, consumer expectations and future flexibility, efficiency of market arrangements, implementation risks and estimated costs

exploring the merits of a number of options in conjunction with our members, as to how they might work.

6. We are concerned that nothing in the solution to date allows for the leftover population on traditional metering, and believe that this needs to be catered for. There are risks of running parallel systems.
7. With respect to the risks of delivery, we would urge Ofgem not to underestimate the difficulty that the data migration and transition will pose.
8. With respect to the industry's programme of change, it is worth noting that 2017-18 looks particularly busy. Energy UK would support more proactive management from Ofgem and DECC.

We hope that these comments are useful. Energy UK looks forward to continuing to work constructively with Ofgem to further improve inter-supplier switching for the benefit of consumers.

If you have any questions, please do not hesitate to get in touch.

Yours sincerely

Alun Rees
Senior Manager, Retail