



Andrew Wallace
Retail Markets
Ofgem / Ofgem E-Serve
9 Millbank
London, SW1P 3GE

Friday 15th August

Dear Andrew,

Please find our response to the “Moving to reliable next-day switching” consultation below, for simplicity our direct response to each question is in **bold**.

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

Yes

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

Chapter Summary: This chapter assesses packages of reforms that could deliver next-day, two-day and five-day switching for consumers and the potential to centralise registration services.

Question 1: Do you agree with our impact assessment on next-day, two-day and five-day switching based on either a new centralised registration service operated by the DCC or enhancing existing network-run switching services?

In our view the impact assessment does not thoroughly address how balancing and settlements would be affected by such shortened timescales. It also assumes that existing market data is correct and valid. Reducing timescales will force industry participants to send data within a certain period of time, there is a significant risk that participants will send data within the timescales demanded but with reduced data accuracy, we therefore recommend that performance measures are put in place not just to ensure processes operate within the desired periods of time but also to ensure that the data exchanged is accurate. We are generally in agreement with the points made,

and suggest “caution” regarding moving to next day switching with the current data issues.

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

First Utility would like to see next-day switching as soon as possible, however we also want the switching process to be reliable and simple for the customer. With the current industry data issues and poor performance measures, we support the Two Day old platform option, this will also provide enough time to adjust our demand forecasts and get them accurate. We would also like to highlight other industry changes that aim to make imbalance more expensive for suppliers, these combined with next day switching would create too much risk both in terms of demand forecasting and imbalance prices. Further, Project Nexus is a refresh of the gas registration process, we have concerns regarding the costs and overall strategy of refreshing the systems twice within a 2 year period. We recommend reviewing the viability of Project Nexus if the approach of a new registration service is adopted.

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?

The electricity balancing arrangements have recently been reviewed by Ofgem, First Utility has raised concerns regarding the shortening of settlement run periods. Settlements fundamentally requires accurate meter technical and read data, whilst smart metering might help with this, smart metering does not solve issues such as crossed meters and introduces a new set of issues regarding smart meter configuration and scaling factor errors. The industry must provide processes that allow such issues to be easily resolved and reversed out of settlements, only then could we agree that next day switching would not have a detrimental impact on electricity balancing arrangements. Regardless of these correction processes being implemented, the balancing arrangements would become much more volatile and unpredictable forcing smaller suppliers in particular to increase prices to compensate for the additional risk.

Chapter 4. Metering reforms

Chapter Summary: This chapter describes an additional reform proposal – a centralised metering database - that could improve switching arrangements for electricity consumers with traditional and AMR meters. We do not propose to include a new centralised metering database as part of our reform package for change of supplier. We discuss here how we have reached this view and ask for your thoughts.

Question 1: A central electricity metering database is not currently included within

our proposed package of reforms. Do you agree it should be excluded?

We agree that it should be excluded because it should be possible to improve existing arrangements and achieve a similar outcome. A significant consideration should also be the number of large industry transforming projects such as Nexus, Quicker Switching, Smart and the possibility of DCC taking over COS (this consultation) that are consuming significant resource, an additional project will likely slow down and delay delivery of existing projects.

Question 2: If a central electricity metering database is included within our proposed package of reforms, do you consider that it should cover both AMR and traditional meters? Do you think that there would be any benefit in extending the central electricity metering database to cover smart meters?

A CEMD should cover all meters not managed by the DCC. We think that extending the CEMD to cover smart meters could put the smart metering project further in jeopardy, we do not see much benefit in doing this.

Chapter 5. Implementation approach and timescales

Chapter Summary: In this chapter we set out how our proposed reform package could be implemented including guiding principles, issues and risks and the key implementation stages. We describe the potential to use our Significant Code Review (SCR) powers to coordinate the required changes to industry codes and licence obligations. We also review options to support the next stage of the project which is to design the detailed business rules and identify the changes to industry codes and licences required to give effect to our proposals.

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

We do not agree, this project could deliver according to these principles and appear to be a success, yet create significant issues for the industry as a whole. A fundamental issue that is still to be addressed by the industry is poor quality data, whilst there is some work happening in this area, a standalone project should be initiated to deal with these data issues.

Question 2: Do you agree that Ofgem has identified the right risks and issues when thinking about the implementation of its lead option (next-day switching with centralised registration)?

Data quality and demand forecasting remains the primary risk concern for First Utility.

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

Yes

Question 4: What do you think is the best way to run the next phase of work to develop the Target Operating Model for the new switching arrangements?

Ideally, we would suggest “mandate the DCC to develop the Target Operating Model”, however this could put the smart metering programme at risk. We therefore recommend option 3 where Ofgem take responsibility for the development of the TOM.

Question 5: What do you think are the advantages and disadvantages of the DCC being directly involved in the design of a Target Operating Model for the new switching arrangements, and the development of the detailed changes required?

Adv:

The DCC has subject matter expertise and programme management processes already in place. They are already engaging with suppliers for smart so one could argue that they are well placed to take on this work.

Disadv:

Whilst the DCC has knowledgeable people, they are working on smart, if the DCC took on this role they would have to recruit and run the programme of work, this could distract them from smart.

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

First Utility has significant concerns regarding the recent SCR approach and the current electricity balancing changes that are being implemented. The changes seem to be not assessed fairly and if they go ahead will significantly disadvantage smaller suppliers. We suggest that an industry led process should be adopted to ensure that the measures being implemented are fair and workable.

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

First Utility fully supports the principle of allowing customers to switch “next day”. We have concerns regarding the number of major high risk projects being undertaken by the industry over the next 3 years. We believe that the 2018 timetable is possible if the other projects are delivered on-time, we don’t think it is possible to do anything sooner.

Appendix 3 – Detailed analysis of reform options

Summary: This appendix describes the parts of the switching process where we have identified reforms that can make a positive difference for both consumers and the market.

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

First Utility raise the significance of data quality issues. The consultation discusses the happy day scenario where data is correct, a process is only as good as the underlying data that supports that process. If the central system for example is not aware of a meter exchange and a read from the new meter is submitted that shows digit wraparound then the shipper would be charged for a very large amount of gas that could not have been anticipated. Current processes allow time to resolve such issues and so volatility can be minimised. First Utility supports quicker switching, but data must be accurate and there must be robust processes in place to allow data issues to be resolved in a manner that ensures smaller suppliers are not exposed to further risk.

Appendix 4 – Detailed approach and methodology

Summary: This appendix sets out the approach and methodology we have adopted to quantitatively assess the direct monetary impacts of our proposals to improve the Change of Supplier (CoS) process. Chapter 2 of the Consultation document qualitatively assesses the wider, indirect impacts of the proposals on consumers and competition in the energy market. Chapter 3 provides a summary of the qualitative and quantitative impacts of our proposed package of reforms. Appendix 2 provides an overall qualitative and quantitative assessment of each reform option.

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

No Comment.

Question 2: Do you agree with our approach for approximating the direct costs for market participants of investing in upgrading existing registration systems to real-time processing and the ongoing costs of operating these systems?

No Comment.

Question 3: Do you agree with our assumption that the direct costs for market participants of investing in systems to shorten the objections window and the ongoing cost of operating these systems would be similar for a two-day and a one-day objections window?

No Comment.

Question 4: 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?

No Comment.

Question 5: 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?

No Comment.

Question 6: Do you think there is efficiency potential for shortening the objections window to one day combined with: (a) upgrading the existing gas and electricity registration systems to real-time processing; or (b) centralising registration with real-time processing? If so, what do you estimate this efficiency potential to be?

No Comment.

Summary: This appendix summarises the quantitative assessment of our reform options and reform packages. It provides analysis against our base case scenario which includes the assumptions we consider most likely. We also provide sensitivity analysis and model alternative scenarios.

Question 1: Do you think the results set out in this appendix are comprehensive enough to show the potential direct cost impacts of the reform packages we have considered?

No Comment.

Summary

First Utility is supportive of next day switching, however current industry workstreams, industry data and process issues cause us to suggest a cautious approach to this implementation.

Please do contact me if you have any questions, and likewise I would be very happy to meet with you to discuss any of the issues covered this response.

Yours sincerely,

Jeremy Guard

Senior Industry Codes Manager

Email: jeremy.guard@first-utility.com