

Andrew Wallace
Smarter Markets
Ofgem

Dear Andrew

Ofgem Consultation: Moving to reliable next-day switching

Gemserv welcomes this opportunity to respond to Ofgem's consultation on *Moving to reliable next-day switching*.

Our observations are presented as an attachment to this letter and we would be happy to discuss further face-to-face. We have provided answers where we believe we can add value to the discussion and have omitted those questions where we believe other stakeholders are better placed to provide a more informed response. Integral to the thinking behind the observations are our declared principles of making markets work effectively, securely and with integrity for everyone's benefit and, as such, we welcome any change that will increase simplicity, clarity and fairness for all participants.

On the basis of the benefits that have been presented for reliable next-day switching, we are fully supportive of the intention to move to this approach. However, we have made comments that we consider important in the detail for planning and implementation, given that any changes will need to accommodate prevalent issues affecting the market, for example energy theft, vulnerable consumers, collective switching and third party intermediaries. Industry has switching processes and timescales in place to address existing issues and these should be factored into any amended methodology and approach.

Gemserv accepts the introduction of centralised registration as a logical progression and key to the overall aim of next-day switching. We are also assured that Ofgem is aware of the magnitude of change required to introduce this new approach. While the timeframe presented in the consultation is not unrealistic, it will require vigorous management to ensure the principal milestones are achieved on time, within budget and to the required standard during a period when there are other priorities, such as smart metering roll-out, competing for attention.

With regard to the proposed Significant Code Review (SCR), we recognise a need to assess the suitability of existing arrangements and the possibility of harmonisation and rationalisation, in order to better reflect the market of the future. Indeed, Gemserv has been an advocate of code consolidation for a number of years and we would welcome the opportunity to engage with appropriate parties before and during the transitional period. We believe our extensive experience in the management of energy industry codes could contribute significantly to the discussion, bringing insight, knowledge and understanding to help shape a better market framework.

In the context of our involvement supporting the Master Registration Agreement (MRA) (and associated central systems e.g. ECOES and Green Deal Central Charge database (GDCC)), Independent Gas Transporters Uniform Network Code (iGT UNC), and the Smart Energy Code (SEC), Gemserv is likely to have a significant role in the activities required to debate, design, develop and deliver next-day switching. We therefore look forward to working with Ofgem and all stakeholders to ensure the best outcomes for this initiative.

Should you wish to discuss our observations further, please do not hesitate to contact me.

Yours sincerely

Ken McRae
Chief Operations Officer

APPENDIX – RESPONSE TO OFGEM CONSULTATION ON MOVING TO NEXT-DAY SWITCHING

CHAPTER: TWO

Question 1: Do you agree that we have accurately described the benefits of improving the switching process? Moving to reliable next-day switching?

The benefits of improving the switching process are well-presented within the consultation document and, while we support these in principle, we would note that the benefits of faster switching should also be addressed in the context of other issues, like tracking energy theft and maintaining visibility of vulnerable consumers and their specific needs. For example, in the former, individuals and organisations engaged in energy theft have used switching as a means of avoiding detection or proper investigation.

CHAPTER: THREE

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?

Based on available research, it is Gemserv's understanding that customers' primary concerns with the change of supplier process are for efficacy and accuracy in switching and for the absence of erroneous transfers, rather than for the switching speed itself. It is therefore unclear whether the impact assessment has fully taken account of the consumer's desire for consistency and certainty, particularly given the wider effects that next day switching could have and the potential of having a knock-on effect for other connected processes.

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

The introduction of next-day switching with a centralised registration service is a welcome development. However, Gemserv believes that any changes to the existing approach should be made in the context of harmonisation across the gas and electricity markets, i.e. operating under a coordinated governance regime that can deliver maximum benefits. We would therefore like the consultation process to give due consideration to the timeframe for delivery and also to the maintenance of existing protocols during the transition to a fully-functioning, smart meter-led environment.

CHAPTER: FIVE

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

Overall, Gemserv is broadly in favour of the four principles presented in the consultation. However, Ofgem might like to also consider including two further principles:

- Supports competition during transition and on an enduring basis, i.e. that Suppliers, large and small, feel able to engage; and
- Implementation does not undermine consumer confidence.

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)?

In considering risks and issues, Gemserv believes that residual arrangements (e.g. what is not included in the eventual solution and what remains within the existing governance arrangements) are of critical importance and should be given appropriate attention in the identification and mitigation process. Careful attention is needed in the transition to next day practices and the appropriate level of governance needs to be in place to ensure a successful outcome.

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

Gemserv agrees that these three stages represent the main steps in the overall programme but, if not already considered, we would suggest that there is a further consultation stage following the design of the Target Operating Model (TOM). It is always easier to offer views and contributions based on a model rather than a concept and, given the complexity and importance of the programme, further consultation prior to action could identify any hitherto unforeseen issues and also maintain/increase engagement with key stakeholders.

We would add that, key to a successful and robust outcome (i.e. one that does not harm consumer confidence) should be the business requirement definition stage. The effort, resources and expertise that is required in getting the changes right should not be underplayed and would be time well spent.

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?

Whichever approach is adopted for the TOM design phase we think there are a number of principles that should underpin the process:

- Active industry involvement is key to their engagement with the eventual solution and to the development of an optimum and pragmatic design;
- This involvement needs to be from across industry, including all participants irrespective of size or role;
- The governance associated with the design phase will need to accommodate a balance between the needs of the existing environment and the needs of the future;
- Ofgem should contribute to the design process, but in the role of oversight in order to retain perspective and provide an avenue for escalation;
- While there are obvious requirements for skills in business process design, large-scale IT and energy regulation, it is important for the Programme Manager to be proficient in stakeholder management; and
- Design should be sensitive to existing structures, avoiding the temptation to develop new processes when those in currency are perfectly serviceable.

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?

To some extent, our views would be dependent on the specific interpretation of “involved” and how that involvement might be enacted in practice. We believe that industry’s involvement, from across the full spectrum of size and role, is integral to the development and adoption of an effective switching model.

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

Given the move to the more integrated approach of a dual fuel energy market from a format based on a combination of arrangements for different fuels and stages in the supply chain, there would appear to be an appropriate opportunity for undertaking an SCR. However, as it is not uncommon for the modification processes of industry codes to slow or stop during episodes like an SCR, we would encourage recognition of this likely side-effect in the planning and implementation. Change causes uncertainty and destabilisation, therefore it is important that the SCR is sensitive to the existing landscape and its attendant influences, with a view to effecting change on a limited and timely basis.

While supporting an Ofgem-led SCR, we would encourage close co-operation and interaction with industry to maximise participation and optimise outcome.

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

The timescale is very demanding and may be too challenging given the market-wide industry change already underway, e.g. competition review, smart metering and TRAS. Ultimately, it will rely on the industry’s ability to mobilise sufficient expertise and resources, and to secure swift consensus on design matters.

APPENDIX: THREE

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

We agree that the main reforms for improving the switching process have been identified.

APPENDIX: FOUR

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?

We believe there is potential for a reduction in the objections window, but it is difficult to gauge accurately at this time given the considerable number of variables that would need to be included in the calculation. We also believe shortening the objections window has the potential to introduce other issues affecting *inter alia* settlement and energy theft.