

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

We agree with Ofgem in that the current switching process is overly complex, and the switching regimes of electricity and gas significantly increases switching admin costs. The benefits to both suppliers and consumers outlined in this consultation are accurate in our opinion, however the current switching process does permit both consumers and suppliers with a certain level of security that faster switching times have the potential to diminish.

The vast proportion of the UK consumer base is unengaged with the energy market and we agree that reducing the timescales will encourage more switching, despite concerns around speed compromising reliability. Yet, we feel this increase will predominantly come from the actively engaged consumer base (10-20%) and not grow the proactive consumer base considerably. We feel that Ofgem's predictions on the outcomes of one-day switching are optimistic. The ultimate goal is undoubtedly to improve the change of supplier experience and process for consumers, we agree that faster switching has the potential to do so. Nevertheless, we feel that it is highly unlikely that faster switching will significantly improve competition and incentivise new market entry. This is based on the fact that suppliers will have to tackle the financial risk of current and future obligations for renewable polices (RO, FiTs, CfDs and CM), DCC set-up costs, and the transition to a single cash-out price (based on PAR1). All of these will significantly increase the costs making the prospect of new entry more unattractive. As a small supplier, we are expending a large amount of working capital and we would be concerned about the associated costs that comes with next-day switching.

A streamlined approach from Ofgem is something we would wholeheartedly get behind, we agree that simplicity is an aspect consumers appreciate. However, the introduction of Ofgem's RMR and the 4-tariff licence condition has further complicated the market and severely limited a supplier's ability to innovate and stand out in the market. Our efforts to remove confusion for consumers with the TAP tariff (no standing charge) reflects this and the uptake by new and existing customers was significant. Restructuring the switching process could aid consumer engagement however we need convincing as to why this industry modification should be placed under the control of the DCC. There is no evidence to suggest the DCC would do a better job than if the change was implemented using existing systems apart from higher operational costs. SEC parties are currently being invoiced large sums by the DCC, and are yet to see anything in return; we are apprehensive to let an organisation whom is yet to prove its role in the market take further control over present industry systems and processes.

## **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?**

The DCC is an unproven facet to the market and as mentioned above, we are very apprehensive on letting them govern another integral section of the industry. We agree that Ofgem has made an accurate assessment of the various switching proposals and the pros and cons are well outlined.

From our experiences, the most common problems that delay switching are; incorrect information from TPIs and exchange of data flows between agents and suppliers.

We regularly encounter across the problem of being supplied information that is either incomplete or incorrect from TPI's. We therefore welcome the work that Ofgem is currently carrying out with the Confidence Code in the domestic sector and the code of practice for the commercial sector, and await the results. Our opinion is that TPI's now play a large role in the utility sector and while all other parties are regulated heavily the TPI sector has been largely overlooked. The other issue we encounter with registration is the timeliness and accuracy of data flows. Data flows between agents and suppliers are essential to the way the industry currently functions; these rely heavily on the integrity of the data held by the previous supplier and set of agents. In our opinion centralising the registration service would not eradicate either of these issues, and actually it would put the resolution of these issues into the hands of a monopoly player in the DCC that suppliers have no negotiation position with, and therefore has little power to encourage the timely resolution of exceptions. Centralising the registration service and shifting the obligations to the DCC would help address these issues providing there were licence conditions on all parties to maintain up to date records. Yet we would be very apprehensive to give the DCC complete control over one of the integral processes that shapes how the industry operates. At present they have been paid handsomely while providing no service or benefit, we feel it would be prudent to judge the DCC on their results before asking them to oversee other industry activities.

One area we are anxious about is the management of ETs under the proposed regimes. We contact all our customers that request a switch away (just to confirm they applied for a change of supplier), this is how we find out about ETs where the customer is only made aware of the circumstances through our contact. There needs to be stricter control around TPIs and the arrangements through which customers can switch energy supplier. Therefore, we are apprehensive about going "gung-ho" into a next-day switching regime.

Having a near instant objection process has the potential to cause significant complications. IT problems, power cuts, staff illness and a myriad of other scenarios all have the potential to see a number of customers who are in debt, under contract or part of a related metering system being transferred incorrectly. This would also have major consequences over billing runs. We believe that shortening the objection window would be easier to implement than developing a pre-notification register for every site. This is also an area where the length of the switching process can be cut without having to making any significant changes to existing systems. Currently we deal with our objections manually and usually send objections within 24 hours if we are going to do so, therefore we would be unwilling to alter our systems for an alternative automated process that would come with a hefty price tag and hugely detrimental impacts if there are any technical faults.

The reduction in the confirmation window does raise some issues in terms of the exchange of meter details and balancing arrangements. We are extremely conscious of any alterations to the switching process as they will come at a cost. While we are happy with the proposal of faster switching, the cost to suppliers is our main concern. As a non-incumbent supplier it is important that we manage our power purchasing requirements very accurately, as fluctuations in customer numbers has a disproportionately large effect on our likelihood of accruing imbalance charges, compared to the big six. On the gas side a shipper's ability to refine its position through revised allocations after the gas day and OCM trading, the financial impact created through imbalances should be minimal. However, in order for this to be effective, significant alterations need to come about in the speed of exchange of metering and volume data. As Ofgem stated in this consultation, the metering issues surrounding the reduction of the confirmation window could really jeopardise the consumer experience. We urge Ofgem to consider this before deciding on next-day switching, as two-day switching carries many of the benefits of next-day switching.

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

We agree that ultimately a centralised registration service is the most efficient solution to arranging one-day switching. Achieving it through existing systems is not cost-effective and would require DNOs to alter their systems whilst not receiving any direct benefit. We empathise with Ofgem in that due to the length it takes from proposal to implementation, addressing the switching process issue now prior to DCC testing is necessary. However we would reiterate our view that before the DCC has so far not provided any service to the industry and therefore should be judged on their results before they are awarded new roles. We strongly believe the market does not need any more monopoly players who have guaranteed returns and profits irrespective of service levels and therefore have little to no incentive to provide value for money.

**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 prospect of next-day switching could have a detrimental impact on both the gas and electricity balancing arrangements. The overarching issue is the exposure to imbalance from the gaining of new customers after NDM or DM nominations to Xoserve. Next-day switching of gas customers who submit requests after nomination deadlines would require shippers and suppliers to manage their position using the day-ahead and OCM more so than they do currently. As Ofgem have stated, shippers can submit revised allocations after the gas day (up to M+15) but this would become inconvenient to do on a daily basis. This would be a major concern for suppliers who have large commercial consumers. Nevertheless, faster switching arrangements would make managing a shipper's position more complex and therefore invariably increase costs.

For power, trades can be made up to an hour before gate closure but suppliers will not be able to adjust their position retrospectively. Faster switching will certainly come with its forecasting challenges in attempts to incorporate new customers within a suppliers demand in short-term models. In addition, the transition to a marginal cash-out price is designed to punish those suppliers in imbalance of which the likelihood would increase with faster switching rates.

**CHAPTER: Four**

**Question 1: A central electricity metering database is not currently included within our proposed package of reforms. Do you agree it should be excluded?**

Yes, we do not feel that the set-up and operational costs required to design and maintain such a database are justified given the implementation date and the smart meter roll out. There are many other liabilities that suppliers are, and will be paying for (predominantly the set-up of the DCC and funding of CfD and CM) and this an unnecessary expenditure given the short window it will be beneficial to consumers. The 7WD agent requirements licence condition will address handling of data between agents in the most part and reduce the current timeframes for achieving handover reads. The overarching issue is still whether this will be enough to achieve one or two-day switching.

**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?**

There is no doubt that the use of an electricity database covering both traditional and AMR meters is more cost-effective than 2 separate systems. We do not feel that covering the metering database to

smart meters is justified as suppliers can access metering information by directly communicating with the meter itself. However, due to a variety of factors including the new “7WD arrangements”, the 2018 implementation date of this consultation and the smart meter roll out do not make a strong case for its financial viability. Both the set-up costs and the time it will be effective for provide sound reasoning to not pursue such a proposal.

## **CHAPTER: Five**

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

We agree that improving the consumer switching experience should be the primary principle. However, as we have already seen through the RMR, QR codes and annual statements to name but a few, the domestic sector has been over regulated with the intention of simplifying energy bills and engaging consumers. These have been largely unsuccessful and have often had the reverse effect of further complicating the market, inundating consumers with data and diluting a supplier’s ability to innovate and stand out from the market. Therefore, we encourage Ofgem to be cautious in their approach to shortening the switching process as the risks involved carry an impact for both suppliers and consumers. Although Ofgem are aiming for next-day switching, there are many benefits that are shared by the two-day regime so it is important not to compromise reliability for speed. This was reflected in Ofgem’s research among domestic consumers and SMEs, in general they were not at all optimistic about the prospect of one-day switching due to contractual arrangements. Therefore we urge Ofgem to consider the risks involved with faster switching, it may be worth considering separating the domestic and commercial switching arrangements.

Working collaboratively to discuss the design and implementation process is essential. Knowledge of how faster switching will affect different parties and their relative in-house processes will enable decisions that incorporate the risks, costs and limitations on different systems that faster switching poses.

### **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)?**

We are concerned that that little focus has been put on ensuring that other standards are not compromised as a result of implementation of this project. We appreciate that Ofgem is aware of other competing industry priorities, but these are really putting a strain on the smaller independent suppliers financially. At a time when suppliers are under pressure to keep prices in check, regulators are putting further onerous regulatory burdens on suppliers, the cost of which inevitably gets passed back to the end consumer.

The cost of the process must be kept reasonable as we fear supplier default is a distinct possibility. Clearly this is a position that all parties wish to avoid as the costs of any supplier failing are borne by the rest of the market. By over regulating the market it could lead to decreased completion as the incumbents are the only parties who can bear the financial burden of Ofgem’s ambitious targets. Suppliers already need to ensure their IT systems will be compliant with DCC systems when their systems go live and as a smaller supplier we do not have the staff to develop these systems internally. Consequently we have to contract with a third party to do this at a cost; next day switching will require further additions to be made to these systems. We feel the objections register is an unnecessary expense given the risks it poses, primarily with how suppliers will deal with debt and customers in credit.

We are very much for faster switching and the alignment of the gas and electricity change of supplier process would be a welcome change. The management of ETs needs to be addressed although we appreciate Ofgem has already gone some way towards this.

The timing of implementation poses a problem and has a huge impact on how the industry currently operates. This is at a time when the utility industry is already going through a significant changes, namely Project Nexus, set up of the DCC and the Smart Meter rollout. Ofgem will need to work with industry bodies to determine whether all of the above are manageable without compromising the consumer experience. The energy sector is currently under a lot of scrutiny and with inevitable price increases for consumers, Ofgem will need to prioritise accordingly.

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

**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?**

**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?**

The obvious advantage of the DCC being involved is they can easily develop the design so that it fits with their smart metering plans. As a supplier, there would be less risk involved if the DCC developed the Target Operating Model as it is subject to a price control, allowing us to manage and predict forthcoming payments. We would expect this to be invoiced in a similar way to how the DCC currently charges SEC parties and would again avoid complicating billing regimes.

Having the centralised registration embedded within the DCC will ideally minimise system adjustments for suppliers as DCC-compatible systems will already be in place. The database should be accessible to users through the user gateways previously set-up to link with the DCC infrastructure. However, this is all in theory, whether this is achieved in a timely and cost-effective manner is something we can only hope for.

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

Yes, we agree that an SCR would be best. Despite being such a large change in how the industry operates, an SCR would give suppliers flexibility in how they are obliged to meet the various code alterations.

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

#### **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 current architecture of the registration systems limits the speed at which switching can occur. The records on the industry database are sometimes incorrect and can seriously delay the switching process as the customer will need to be contacted to verify MPAN/MPRN and address details.

Aligning the electricity and gas switching regimes would be very beneficial to the industry, reducing admin and processing time. To do this clearly there needs to be a change in the way the objection and

confirmation windows operate, whether next-day switching is the best option is still not apparent. "Speed is key" seems to be the message in this consultation and radical changes to major industry procedures can come with problems. We believe Ofgem have identified the main areas for reform for consumer switching, nevertheless the PPM consumer base could not operate in a next-day switching world. Suppliers would simply not be able to send out keys quickly enough, in the case of non-smart pre-payment customers. The idea to separate PPM customers from credit meters may enable faster and reliable switching across both groups. Rather than encompassing both under a single switching regime.

From the complete industry overhaul with SMIP, the sector is currently going through major change. The exchange of data flows between industry parties will improve in both speed and reliability with the introduction of more smart meters into the market. The 3-week switching regime that is soon to come into force should easily be achieved and reduced further with smart meters and the reductions to the gas confirmation window. However, the registration services under the DNOs and GTs still remains, we are very much for a centralised registration system, but at what cost.

Changes to speed up the objection window without investing in a new objections register is preferable. We currently respond to almost all our objections within 24 hours of receiving the switch notification. Consequently we strongly disagree with the proposal of central objections register.

Shortening the gas confirmation window is an option but we believe that suppliers with a large commercial portfolio would be able to give a more extensive answer on how this would impact the gas balancing arrangements and a supplier's position.

#### **APPENDIX: 4**

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

**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?**

**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?**

**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?**

**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?**

We feel that Ofgem's predictions of the smart meter rollout are optimistic. We agree that the efficiency of operating a traditional and AMR meter database will decline with the smart meter roll out. However, we believe that Ofgem's predictions for the speed of the smart meter roll out are too ambitious, and therefore the longevity of the metering database will be increased. Reasoning behind this pessimistic view is due to numerous customer-related issues, such as being unavailable for engineers or stubbornness around keeping their current meter (traditional or AMR), and also the sheer number of meters that need changing compared to the number of engineers trained to change them. These instances may prolong the smart meter roll out considerably.

**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 with real-time processing? If so, what do you estimate this efficiency potential to be?**

**APPENDIX FIVE:**

**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?**