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Dear Andrew,

Consultation on Moving to Reliable Next Day Switching

Thank you for the opportunity to review the consultation and be involved in shaping the future of the energy change of supply process.

In summary npower fully supports the call for shortening the switching process but not at the expense of reliability or customer experience. This concern is also echoed within the consultation, referring to customer research: *"Both domestic and non-domestic customers prioritised a reliable switch, and that any improvements to speed should not be at the expense of reliability or reduce the opportunity to resolve issues such as exceptions"*. We believe customer requirements should be a major deciding factor in determining how quick the switching process should be and don't feel there has been sufficient customer research conducted to determine which option is most suitable.

Shortening the switching process will require significant investment from the industry and as a result customers will incur costs, so it is imperative the decision is based on customer requirements. With the energy industry coming under increasing pressure we must ensure the right option is chosen and reliability does not deteriorate. This is an ideal opportunity to rebuild customer trust in the industry and demonstrate how serious we are about doing the right thing for customers, so we have to get it right.

In compiling the response we have conducted our own customer research on the three options, both domestic and non-domestic, with over 600 responses and the results are contained within this response. We would be happy to discuss the results further with Ofgem but would also urge Ofgem to commission further customer research focussing on the three options but also explain the cost and reliability of each option to ensure a true customer opinion can be gathered. The new research summary and questions should be agreed jointly by the industry, possibly through Energy UK. It could then be placed on several websites such as suppliers, Broker, Ofgem, Energy UK, Citizens Advice Bureau, Which? etc with the results then compiled and publicised via the Ofgem Daily Update communication.

We also feel there are other factors which need to be considered in more detail prior to any decision being made. These include but are not limited to: how the industry will function under the proposals where customers do not have a smart meter or are not assigned to the DCC, how agent appointment will be managed and assurance that vulnerable customers are protected, assurance smaller suppliers are protected and are capable of managing a shorter switching timescale, impact on prepayment customers, the exception process when coverage outages occur plus assurance the DCC are capable of managing shorter switching when we have not yet seen the DCC operate as an entity.

Please find below our response to each of the consultation questions.



Chapter 2 – case for reform

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

The report does outline the qualitative benefits of improving the switching process. We agree reliability has to be the number one priority and this is confirmed by in the customer research. However, we feel the emphasis on speed is not justified by the customer research in your consultation.

We think that by improving the change of supply process there will also be other benefits which don't appear to be captured in the consultation. These are benefits to suppliers and network providers as aligned processes will see dual fuel efficiencies plus a consistent generic process will be easier for customers to understand and in turn encourage switching.

Below we have identified certain points from Chapter 2 that we would like to challenge.

Point 2.5 states: *“We expect suppliers to respond in a more dynamic market by trying harder to attract new customers. An increased threat of losing market share will also encourage suppliers to offer good service, innovative products and competitive prices to their existing customers”.*

There is a risk that next day switching could see a reduction in the innovation of products because we would assume that the majority of customers wishing for a quicker switching would be purely based on price.

Extract from Ofgem's customer research:

“Most said it should not happen this quickly, as for them the low price differential between suppliers meant that a quicker switch would deliver limited benefit and only increase the risk of something going wrong during the process”

Point 2.6 states: *“A more dynamic market, where customers are increasingly likely to switch, can encourage new parties to enter the market and existing suppliers to expand. A faster and more reliable change of supplier process can also create new opportunities for current and new TPIs. TPIs can play a major role in encouraging consumers to participate in the market and provide new ways for them to do so”.*

The reference to encouraging new parties to enter the market is interesting because we actually think that next day switching could pose a significant risk to smaller suppliers. With a 5 day switching period a supplier would know (albeit at short notice) the volume of customers they will be gaining. However, with next day switching, a supplier could find that they have gained several hundred thousand customers overnight (for instance signed up via brokers as they have a newly launched cheap tariff). We have a concern that smaller suppliers may not be in a position to manage this and it could pose a serious, unfair threat to them because without automated systems large scale manual intervention is required while with automated systems electronic sales would transfer directly through with no preparation. We would like assurance that smaller suppliers have been engaged, understand the risks to their businesses and agree with the proposals. If a smaller supplier were forced to cease trading as a result of this, this would have a detrimental impact on competition.

With reference to opportunities for TPIs we believe that there is a need for Ofgem to implement robust regulations for TPIs in this market to ensure transparency and compliance.

We would suggest that Ofgem undertake qualitative and quantitative analysis in 2015 to assess what benefits and behavioural changes have been observed or delivered through the current quicker switching project. If, for example, we see a significant increase or decrease in both satisfaction and or switching, will Ofgem reconsider the options within this consultation?

There is benefit in speeding up the process to encourage competition but we don't see there being any real benefit in implement next day switching as apposed to 5 day switching.



Chapter 3 – Options to deliver fast cost effective switching

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?

No, we do not feel the impact assessment gives a balanced analysis.

The argument for choosing next day switching over two day switching is vague. The report argues that the two options offer the same reliability & efficiency, and suggests that next day switching should be done on the basis that the cost is roughly equal. However, while the average investment costs of the reform packages for a dual fuel customer differs by 10% the incremental NPV for next day switching on the new platform is £123m while for two day switching it is £48m, a 60% discrepancy. We would not class this discrepancy as roughly equal in cost. The counter argument that two day switching is less likely to meet future consumers' expectations is hard to quantify and we feel not justified.

Point 3.30 states: *“Our assessment shows that, for a relatively low initial investment, the existing systems and processes developed in the late 1990s could be replaced with reliable efficient and flexible arrangements that support dual fuel switching and can respond quickly to future market requirements.”*

As stated above, we do not regard the cost of this reform to be a relatively low initial investment.

The consultation suggests systems would have to be automated for both 1 and 2 day switching. This is true, however, the level of complexity would differ greatly and next day switching would require greater operational backup because, in reality, even an automated system is fallible and manual exceptions will always occur.

The consultation rejects five-day switching claiming it would be managed within the current infrastructure on existing registration systems. However, five day switching can be delivered with centralised registration through the DCC and both the industry and customers would benefit from the efficiencies it would bring. This should be included in the analysis.

Next day switching without lock in periods brings a significant risk to increased serial switching among individuals and groups. This would see industry bad debt rise, which would be smeared across the customer base and as a result bills would rise for honest bill payers. The consultation does not mention this risk. In a next day switching world it would be easy and cheap for a person to build an automated system which scans comparison sites daily and automatically completes a contract with the cheapest supplier. On a larger scale this would have a major risk. There would also be an increase in debt recovery agencies being engaged resulting in a poorer experience for customers and higher overall industry costs.

The impact assessment does not cover in detail the impact next day switching would have on instances where an actual site visit is required. For example, for vulnerable customers or non-domestic customers where an actual site visit is generally insisted on because of the commercial impact to the customer if estimated reads are used. An I&C customer may have several thousand sites so arranging a site visit for the next day would not be possible. Furthermore, it does not fully cover the health and safety requirement where suppliers are obliged under code to have a meter operator appointed by supply start date.

The consultation does not appear to cover the impact next day switching could have on prepayment customers. We would be keen to understand Ofgem's view of the process for prepayment customers and how they will be protected.

The consultation advises this solution will be across the market covering domestic and non-domestic customer but does not sufficiently cover the impact on domestic customers who refuse to have a smart meter installed, nor I&C customers who choose not to assign to the DCC. It is important that the consultation addresses these issues because if the industry is forced to run two infrastructures then there would be significant costs and risks as a consequence.



Currently customers can appoint their own agents. The consultation does not cover this scenario and consider how these can be managed in the future.

We feel the impact assessment should also include the fact that next day switching could actually cause an increase in erroneous transfers as it allows less time for quality checking to be carried out. A five day switch would allow time to resolve exceptions. One of COSEG's priority requirements was to reduce erroneous transfers.

As mentioned in the Chapter 2 response, the three customer surveys referenced in the consultation do not directly support 1, 2 or 5 day switching.

With a fundamental change such as this, we feel thorough quantitative customer research should be carried out where customers are given the three options and have the cost and reliability impacts explained to them. We would suggest further customer research to be carried out asking customers whether they would prefer 1, 2 or 5 day switching but also explain the associated risks and impacts.

We have conducted our own customer research and from 550 responses from domestic customers only 6% preferred a 1 day switch whereas 3% preferred 2 days and 40% preferred 5 day switching.

We have also conducted our own customer research with SME customers and from 81 responses found only 3% preferred a 1 day switch, whereas 11% preferred 2 days and 48% preferred 5 day switching.

Our customer research emphasises the need for further quantitative research to be carried out.

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

No, we do not agree with the proposal to implement next day switching. We do, however, fully support the proposal for centralised registration through the DCC, regardless of the 1, 2, 5 day options, as aligned processes will bring efficiencies for suppliers and deliver a true dual fuel experience for the customer. We also fully support the need to speed up the switching process.

Our own customer research shows customers do not agree with next day switching either.

The majority of customer feedback shows that the main priorities for customers are lower bills and a reliable switching process. Next day switching is the most expensive option with the highest risk of error.

In the December RFI nPower proposed a five day switching time with centralised registration through the DCC with:

- 2 days for objection management and checking – this would allow manual checking where system failures occur. Not all suppliers will have fully automated systems so we feel this option provides consistency and fairness across the market. We have also seen instances where some suppliers misuse the change of tenancy marker, resulting in significant commercial impacts. This would allow the required validation to occur. Reference 11 on page 14 of the Appendices document suggests 3% of all gas transfers involve a supplier misusing the COT marker. This issue should not be allowed to increase.
- 2 days between the end of objection to SSD - to allow agent management to be carried out especially where a meter operator must be appointed for health and safety reasons, the customer appoints their own agent or a site visit is required for vulnerable customers and allows preparation for go live.
- The switch occurring on day 5.
- As mentioned several times in our response, customers prioritise reliability over speed and our own customer research supports this claim. Only 1% prioritised speed over reliability whereas 47% prioritised reliability over speed. This option provides the highest reliability, together with the lowest risk and lowest cost, whilst still drastically shortening the switching timescales from 35 days down to 5 days. Dual fuel benefits from centralised registrations through the DCC would still be achieved.



The DCC does not have any experience in operation, so the 5 day solution would be more prudent.

Point 3.13 states: “When domestic consumers were asked for the optimal length of the CoS process, most opted for 2-4 weeks based on the basis that they believed improvements in timing might involve a trade-off with reliability.”

Extract from Ofgem’s customer research:

“Among most consumers with limited experience of the energy market there is appetite for a slightly quicker CoS process. Most settle for an ideal timescale of between 2 and 4 weeks from agreeing to change supplier”

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

No, we feel next day switching will have a significant impact on energy balancing arrangements because forecasting would be extremely difficult with next day switching. Five days would reduce certainty but there would still be some certainty for suppliers to work with. However, next day switching would result in zero certainty and balancing would be drastically affected.

Next day switching would expose customers to the live market; a situation nPower endeavours to protect customers from.

We think there is a risk to smaller suppliers and competition. Currently smaller suppliers have time to plan their purchasing of energy. However, next day switching removes that planning time so we need to ensure smaller suppliers can manage their cashflows, purchasing sufficient energy within a matter of hours and having to wait months to collect the revenue. The industry has previously seen smaller suppliers cease trading due to this.

Chapter 4 – Metering Reforms

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

The cost is small in relation to the overall reform but the benefits are slim and it will be outdated by 2018. Therefore, we agree that it should be excluded.

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

If it were to be included, we think it should include both types of meter. However, given the cost of implementation and the limited return possible in the short-term period between now and the rollout of smart meters it does not seem worthwhile. With the ability for suppliers to obtain information directly from the meter we don’t feel it would be beneficial to include smart meters.



Chapter 5 – Implementation approach and timescales

This chapter assumes that next day switching is the best option and thereafter the plans and implementation risks and assessments appear predicated on that basis. It would be useful to know Ofgem's plan if the majority of parties do not agree with next day switching.

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

We agree with principles 1, 3 and 4 although we strongly disagree with principle 2. The priority for this programme has to be quality of delivery, not speed of delivery. Further information on our reasons for this can be seen in responses to question 2 and 7 of this Chapter 5.

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)?

No, we feel the risks could have been expanded further.

The risk attached to competing industry priorities does not specify the priority level of the project; it would be helpful to see a priority list in case issues do arise, otherwise it is difficult to determine how best to balance CoS Reform with other projects underway.

With regards to the risk of delay, we do not agree parties should have licence conditions to implement the changes. The implementation date is 4 years away so impossible to foresee what may happen during that time. This year we have seen a major DECC led industry change, Quicker Switching, go from concept to implementation within 12 months. If a similar unforeseen request occurs again it would be unfair to penalise parties. Where suppliers agree to changes we endeavour to meet those promises and we would prefer to see an approach based on collaboration and trust.

Note 5.5 only includes two projects (Project Nexus and Smart metering roll out) when there are many more major industry changes due to be delivered between now and the end of 2018 including:

- Ofgem's own Smarter Markets programme including Electricity Settlement Reform
- Reducing Electricity Settlement timescales
- Quicker Switching
- EU Reforms
- DCC Go Live
- Electricity Balancing
- Electricity and Gas Theft – TRAS
- EMR

The option of 5 days into 1 where 5 days will be implemented by end of 2016 and 1 day by 2018 is extremely risky considering the amount of change happening around that time. It would be more prudent and less costly to make just one change and would there really be any benefit implementing a 5 day switch for just two years?

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

Yes, the implementation stages seem sensible for a high level project timeline. However, we would like to see a further stage covering lessons learned, unresolved issues, success monitoring etc.

We would also want tight controls ensuring a stage does not commence until the previous stage has completed with quality checks and criteria completed.

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?

The COSEG sessions worked well so we would suggest a similar structure to those for the outset. Energy UK could possibly run additional separate sessions with representatives from supplier regulation and operational teams.



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

If a party is to be an integral part of the process then they need to be directly involved in the design of the Target Operating Model. The proposal is for the centralised registration through the DCC so if the DCC are not involved this adds a further risk to the project. With DCC involved they can assess impacts on their costs, plans etc at an earlier stage and, one would expect, offer suggestions.

The DCC will be required to make massive changes soon after going live whilst balancing other significant programmes and we have already seen delays in DCC meeting consultation and project milestone dates, so they will need to be involved at all stages.

With centralised registrations through the DCC we would expect the DCC to provide robust reporting on performance (including misuse) as this would be the ideal place to generate the reports.

We would be interested to understand Ofgem's views on how the DCC will be regulated. With centralised registration the DCC will have absolute control and monopoly over all elements of the registration process. There will need to be stronger regulation to ensure misuse does not occur and all parties including customers are protected?

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

A Significant Code Review seems the most sensible solution.

As part of the project we would expect to see the Smart Energy Code replace existing codes for change of supply as it is a dual fuel code so would provide central control, removes duplication and discrepancies and is also good for customer protection and the industry as a whole.

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

We feel an implementation date of Q3 2018 already carries risk and is optimistic and there could even be a case for moving the implementation date back.

The timetable proposes hugely significant changes at the same time other major industry changes are bedding in. Q3 2018 will be in the middle of the majority of suppliers' smart meter roll out which will inevitably identify many issues. To go live in the middle of such a major programme is a risk and a more prudent approach could be to delay the implementation until smart meter roll out has completed, issues have been resolved and the whole smart infrastructure is successfully operating.

Overall we do not think it is feasible to bring the delivery date forward.



Appendix 3 – detailed analysis of reform options

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

We think Ofgem has focussed on the correct options, being 1, 2 and 5 days. However, the consultation does mostly focus on next day switching. We would like to see a more balanced assessment including the 5 day option with centralised registration in greater detail.

Please refer to comments earlier in this response regarding items we feel need to be covered in more detail before a final decision can be made, mostly the need for more customer research aligned to the three options.

Below we have identified certain points from the appendix which we would like to comment on.

The objections summary only focuses on the negatives of objections when in fact objections provide protection to customers, suppliers and the market in general. Debt objections protect suppliers and the market from increased bad debt and contract objections protect suppliers specifically where large volumes of energy have been purchased for large use consumers.

Point 1.30: refers to non domestic customer research on objections pointing out customer opinion and concerns around the use of them. When this research was discussed at COSEG it was found suppliers were following the correct processes.

Point 1.36: states all options would require automated systems. This is correct; however, there is a significant difference in the level of complexity. For overnight batching, if a customer pays their bill by 10:00 the supplier systems would update overnight, so a relatively easy, low cost option requiring little operational support. However, with next day switching the suppliers would have to update systems and the central objections database by 17:00 and if the customer pays their bill at 16:30, for instance, it would be difficult to update the database by 17:00. In reality even though systems can be automated there is always a need for manual intervention when errors occur. As stated in the December RFI, the operational impact for managing real time exceptions and updating the central objections database would be exhaustive, causing operation costs to increase and as a result customer bills.

Point 1.38: with a centralised objections database, we are uncertain how the existing supplier would be made aware of the objection and how this would be communicated to the customer. With a letter being sent to the customer notifying of the objection, then a further registration attempt the following day, there could be great customer confusion caused as a result of the overlapping timescales. The 5 day option allows time for letters to be sent and received. There is also uncertainty around responsibility of communication failures. A central objections register would also pose a data protection risk as it could effectively be used as a 'black list' so there would need to be robust security in place, again causing excessive cost to the industry and customer.

Point 1.40: compares costs for a combined centralised objection database and separates ones on existing gas and electricity registration systems. We feel separate new databases should not be added to the existing gas and electricity systems as it would duplicate effort and we would lose the dual fuel efficiencies.

Point 1.43: identifies the need for customers to be returned to their previous supplier when a switch and cancellation occurs during the cooling off period. It should be noted that the costs within the consultation do not include costs necessary for delivering this.

Point 1.44: states suppliers validate COT markers on registration requests and that this validation will not be possible for next day switching. As pointed out earlier, our non domestic teams need this validation because we and other suppliers through COSEG advised this is currently being misused. Reference 11 on page 14 of the Appendices document suggests 3% of all gas transfers involve a supplier misusing the COT marker. This risk should be quantified in the consultation and to remove the ability to quality check the marker would encourage further misuse and impose commercial risk to suppliers. This risk would be mitigated with 5 day switching.



Appendix 4 – Detailed approach and methodology

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

Again please see earlier comments throughout this response regarding further analysis we feel is required.

The COSEG sessions managed by Ofgem were very successful and we feel were a positive way to gain collective inputs and get the industry working collaboratively to improve the CoS process. The approach has been sensible, with workshops held and estimated costs requested for each option. It is clear Ofgem have committed a great deal of time and effort in conducting the assessment but we feel further analysis is required prior to making a final decision.

With regards to the reforms options we do strongly feel our 5 day preference would be the most appropriate solution for both the industry and the customer.

With regards to specific points in this section, please see below.

Point 1.1: states “we have undertaken extensive consumer research as outlined in Chapter 2 and analysed other markets (see Appendix 6) in order to identify the best outcome for consumers. This research has been used to identify potential reforms that could enable beneficial consumer outcomes”

As mentioned earlier in our response we do not feel extensive consumer research has been carried out, especially as the consumer research does not cover the three reform options or fully explain the impacts to the customer. One of the referenced articles was taken in 2003, the market could have changed considerably since then. We feel further customer research is required prior to a decision being made. We also do not feel a true comparison has been made with other markets. For instance where other countries have implemented next day switching, with or without objections, analysis should be undertaken to understand the impacts on their economy (it was mentioned through COSEG that areas of Australia have seen a dramatic increase in bad debt since implementing next day switching).

Point 1.10: states “To prevent erroneous transfers in Italy, the regulator has introduced rules to ensure that the customer’s request to switch is verified. For example, there is a requirement to inform the customer of the conclusion of the contract (welcome call).”

Again it would be useful to understand the impacts of these rules. For instance, how does this work for online/broker sales, has it caused a delay in switching times or even a reduction in switching volumes.

Research shows that when America implemented smart metering on a similar infrastructure to the UK, there were coverage outages resulting in updates being delayed by upto 3 days from the meter. We need to understand the impact of this happening with the three options and assess the risk. Smart meters cannot be retrospectively updated so multiple switching during coverage outages would cause customer and industry confusion requiring substantial manual correction.

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?

We appreciate the difficulty in compiling accurate costs when the implementation date is so far in the future. The estimates provided by stakeholders could not have a major confidence factor attached due to uncertainty in the market over the coming years. We feel Ofgem has approximated the costs sufficiently based on the information provided.

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?

Yes we would assume the costs for 1 day and 2 day objections would be roughly similar assuming overnight batching without the central objections database.



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?**

For the purpose of this analysis and without visibility of other market participants' information, we feel 10% would be a fair assumption.

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 agree there is reduced efficiency and the assumption seems fair but we aren't in a position to agree the actual figures.

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?**

The real operational efficiencies will be delivered when centralised registration is in place and the industry is operating on a consistent process for both gas and electricity. We do not feel real time processing will deliver efficiencies due to the system developments and operational support teams that would be required to manage this.

The 5 day proposal with centralised registration through the DCC with overnight batching will deliver better efficiencies.

Appendix 5 – Detailed results

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, we feel the option of 5 day switching on the new platform with centralised registration should have been assessed to give a true comparison.

To conclude, 5 day switching with centralised registrations through the DCC is our preferred option because it offers customers reliability and a speedier switching process at lower cost.

I hope the above is satisfactory, however, please do contact me if you require anything further.

Yours sincerely,

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