Rupert Steele OBE
Director of Regulation

Andrew Wallace
Smarter Markets
Ofgem
9 Millbank
London
SW1P 3GE

13 August 2014

Dear Andrew,

MOVING TO RELIABLE NEXT-DAY SWITCHING

Thank you for the opportunity to comment on the issues raised in the above consultation. This response is submitted on behalf of the ScottishPower group, including both supply and networks interests. Our responses to the consultation questions are set out in the annex to this letter.

Overall, we are very supportive of measures that are likely to have a positive impact on competition in the energy retail market. One of the key reasons why many consumers choose not to engage in the market is the perceived hassle of switching. If the timescales for switching can be compressed, this is likely to have a positive impact on engagement and competition – but only if this can be achieved without detracting from the user experience in other respects.

In taking the next day switching reforms forward there are two issues we believe are important for Ofgem to consider at this stage:

- **Two stage implementation approach –** Ofgem is proposing that next day switching should be implemented by 2018, including moving to a centralised gas and electricity registration system under the DCC by this time. We consider it would be more practical, and safer in terms of the overall user experience, to adopt a two stage approach:

    - Stage 1: implement two day switching by enhancing the existing gas and electricity systems by 2018

    - Stage 2: move to next day switching and a centralised DCC register by the end of smart rollout in 2020.

  We believe Stage 1 (two day switching) will deliver most of the consumer benefit that would be delivered by next day switching. Implementation would be considerably simpler due to working with the existing registration systems and this approach would ensure that smart rollout and the DCC are not impacted. It also avoids the removal of the gas registration solution from Project Nexus which is likely to involve substantial costs. In Stage 2 (next day switching) the industry can work

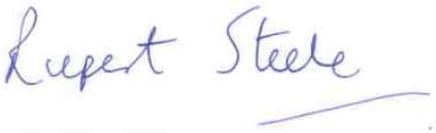
ScottishPower London Office, 4th Floor, 1 Tudor Street, London EC4Y 0AH
Telephone +44 (0)141 614 2000, Fax +44 (0)141 614 2001, Direct +44 (0)141 614 2012
rupert.steele@scottishpower.com www.scottishpower.com

through issues necessary for next day switching whilst minimising disruption to consumers. The gas and electricity registration systems could be migrated to a single system under the DCC which would be much more straightforward once smart rollout is complete in 2020.

- **Objections** – It appears that Ofgem may be considering removing the ability of suppliers to object to switches on grounds of debt. In our view it is vital to retain this ability within the switching process, with the onus naturally remaining on suppliers to demonstrate that they have acted reasonably in raising objections. Without the ability to object on grounds of debt, a customer may build up significant debts and then evade their responsibility by switching supplier. If customers repeatedly behaved in this way, this could lead to a significant escalation of bad debt across the industry, which would increase costs to all consumers. A parallel can be drawn with the water sector, where there has been a significant increase in bad debt after disconnections on the grounds of debt were prohibited, highlighting that removing legitimate backstop means for companies to recover debt would have a wider detrimental impact on consumers more generally.

Should you wish to discuss any of the above points, please contact me via the details provided or contact Lorna Mallon (lorna.mallon@scottishpower.com).

Yours sincerely,



Rupert Steele
Director of Regulation

Annex

MOVING TO RELIABLE NEXT DAY SWITCHING
SCOTTISHPOWER RESPONSE

Chapter 2 -The case for reform

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

We agree that the benefits of improving the switching process have been accurately captured within the consultation. We have been proactively engaged within industry initiatives to improve switching timescales and the supporting processes. With the rollout of smart meters supported by the DCC, and technology enabling secure data transfer and storage, we believe that the goal of reducing switching times to two days and ultimately one day can now potentially be realised.

We agree with Ofgem that a move towards next day switching will deliver net benefits to consumers, provided that suppliers retain the ability to object to switches where customers have accrued significant levels of debt. At present, suppliers can minimise the build-up of debt by fitting prepayment meters or, in extreme cases, disconnection. If suppliers are unable to object to switches on grounds of debt, customers will be able to evade these measures simply by switching supplier. If customers repeatedly behave in this way, this could lead to a significant escalation of bad debt across the industry, which would increase costs to all consumers. This has been the experience of the water sector after disconnections on the grounds of debt were prohibited.[1]

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

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 IA provides a comprehensive assessment of the current switching regime and the challenges of introducing improvements arrangements.

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

Having considered the options available and the costs of upgrading current systems, we concur with Ofgem's assessment that a new centralised registration service should be operated by the DCC.

[1] According to the Ofwat website, in 2010 "More than five million households [owed] money on their water bills and over the last five years the amount owed has increased by more than 50%. Our latest information shows that the cost of collecting and writing off debts has risen further, adding about £12 to every customer's bill", see http://www.ofwat.gov.uk/publications/prs_web_1002baddebt. In January 2012 this figure had risen to £15 (see Defra consultation 'Tackling Bad Debt in the Water Industry' https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/82399/bad-debt-consult-condoc-120123.pdf

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?

It is difficult at this stage to understand how next day switching will impact the present patterns of customer switching. It is conceivable that customer switching may become more volatile and this may adversely impact suppliers' balancing requirements but this remains to be seen. However, the most likely impact is that suppliers will have fewer days' notice of customer churn and less time to make any necessary adjustments to their wholesale energy position.

If widespread use was made of automatic switching services (which compared tariffs and automatically switched the consumer) in conjunction with one or two day switching, it is conceivable that this could lead to instability with potentially millions of people switching on a daily basis, which could make balancing and hedging by suppliers very difficult. If this became a realistic prospect, there would probably need to be measures to prevent the problem (for example, restrictions on the use or frequency of automated switching). But the currently distant prospect of a problem of this kind should not be seen as an obstacle to speeding up the switching process.

Chapter 4-Metering reforms

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 agree that at this time a centralised metering database for non-smart meters is not required.

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?

We believe that a centralised electricity metering database should be able to cover smart, advanced (AMR) and traditional meters. We do not believe that a separate database for AMR and traditional meters would be justified in terms of costs, given the small volume of such meters that will remain once smart rollout is complete. Once a critical mass of smart meters has been installed we believe it should be possible to establish the centralised metering database under the DCC and migrate the AMR and residual traditional meter population into this database.

Chapter 5-Implementation approach and timescales

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

Having considered all aspects of the reform measures put forward by Ofgem in the consultation document, we believe it would be more practical to adopt a two stage implementation approach as follows:

- **Stage 1-Two day switching by 2018**. This would require centralising all gas registrations to Xoserve (as is planned under Project Nexus) and retaining the existing electricity registration system (MPAS). Two day switching is feasible in both systems, avoiding problems arising from shortening key processes to under a day, notably

objections, PPM key exchange etc. This stage would deliver the majority of benefits that would be expected from next day switching without impacting smart meter rollout and without the need to remove registrations from Project Nexus.

- **Stage 2-Next day switching by the end of smart meter rollout (2020).** After 2018 the industry can work on the required reforms to key components within the existing change of supply processes in order to achieve reliable next day switching and the migration of existing gas and electricity systems to a single one operated by the DCC. The industry would have time to work through some of the problems identified above such as shortening the objections process to below one day. In addition there would be other important issues to address such as designing enhanced erroneous transfer processes, and enabling within-day smart meter security key exchange.

In the second stage we would also recommend that Ofgem give consideration to the following in designing the DCC's central registration system:

- *Migration of all registrations to the DCC* – We believe it would be efficient to ensure all items are migrated to avoid the costs of maintaining the existing gas and electricity registration systems for purposes of a small volume of legacy items, for example all SVAA settled MPANs, ie non half hourly, half hourly and unmetered (UMS). Such migration would need to ensure that all users other than suppliers using such systems (eg DNOs) were able to access the same items in the new centralised DCC system

- *Centralisation of data collection and aggregation functions* – we believe these could be built into the DCC's centralised registration system and then suppliers would have the choice to opt in and use such services.

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)?

No, as mentioned above we believe there are a number of risks and issues that have not been considered and as such a staged implementation is our preferred option. In addition the industry is currently undergoing an unprecedented level of change and investment in order to support large scale industry initiatives such as data cleansing, Project Nexus and the roll out of smart meters. We therefore believe that a phased implementation approach is required to deliver next day switching. This would ensure that adequate time and expert resources can be engaged and deployed to deliver a solution which achieves the intended customer benefits.

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

As mentioned in our response to Question 1, we believe a move to two day switching regime by 2018 followed by the next day switching by the end of smart metering rollout would be a more viable solution at this time.

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?

If the decision is taken to move straight to next day switching, an SCR is the only option that allows the mobilisation of the required resources.

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?

We recognise that resources are limited at this time within the DCC, so there is a risk that this approach could result in resources being further stretched and diverted away from key smart work. However we agree that the DCC's involvement is vital, and it is important that DCC staff participate fully in the design of requirements.

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

Yes, provided all industry participants are engaged (suppliers, distributors, transporters etc), as they will need to feed into discussions which will impact their systems, processes and costs.

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

As mentioned above we would like to propose and alternative two stage implementation approach. We believe it will be difficult to effect all the necessary changes ahead of 2018 without putting the quality of the consumer switching experience at risk.

Appendix 3

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

In principle we agree that the main reforms have been assessed but we have highlighted an alternative approach as detailed above.

Appendix 4

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

In completing the Request for Information, the industry presented estimates based on the information available to them of the costs and benefits of moving to reduced switching timescales. However, we remain somewhat concerned about the level of re-work (and associated costs) which may be required to separate the gas registration processes from UK Link/Nexus so soon after a full system replacement has been delivered. In the absence of detail on the costs of removing the registration process from Xoserve's replacement system, we are unable to comment on this particular aspect in any more detail.

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?

As outlined above, in the absence of specific details of the degree of change that would be required to core industry systems and their supporting processes, we are unable to comment with any degree of certainty.

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?

An information request specifically related to the length of the objection window may be beneficial here rather than basing the assumptions on responses to an information request which was not directly related to this specific area.

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?

While we do not necessarily agree with the assumption, it is very difficult to come up with an alternative. These meters should be read remotely (either by the DCC or the data collector, provided commercial arrangements are in place) so the costs of providing the change of supplier reading should be very low.

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?

Yes, we agree with the assumption

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?

As we do not have access to all the figures it is difficult to provide efficiency potential figures. As mentioned above, we believe using the existing gas and electricity registration systems to operate two day switching for a time may be an interim arrangement, prior to moving to a centralised option.

Appendix 5

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?

The results cover the options considered but we believe there are additional options.