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Dear Andrew,

Ofgem consultation on moving to reliable next-day switching

Thank you for the opportunity to respond to the above consultation. SSE is generally supportive of the policy to improve the switching process in a way that is in the best interests of customers. However, it is important that the significant industry change proposed is implemented in a way that will minimise potential problems that a next-day switch might bring and SSE is keen to work with Ofgem in order to identify and overcome any obstacles to the implementation of next-day switching (or 2 or 5-day switching, as may be appropriate). We have provided detailed responses to your questions in the attached Annex and comments below on some of our observations at this early stage.

Uncertainty surrounding cost benefit of proposals

Whilst SSE fully supports Ofgem's proposals to improve the switching process, we note that of the various options considered, Ofgem has opted for the option that brings the highest risk in order to deliver the fastest switch for customers. A key theme in Ofgem's customer research was that customers wanted reliability over speed¹. Indeed, reliability was quoted in Ofgem's research as being most important to customers^{2, 3}. Thus, whilst we believe there is a need for reform, it would be beneficial to conduct further market research to understand what customers value most in the switching process. In particular, it would be useful to identify the tangible benefits that a one-day switch will bring in practice when compared to the faster switching that is already being implemented. SSE believes it is important to ensure that we have clear and unambiguous evidence prior to embarking upon very costly

¹ "I don't want the new supplier to rush things through. It's a large organisation, they need to produce accurate documents, I need reassurance that everything will be alright." (Ipsos Mori Social Research Institute 2013)

² "Ensuring reliability and accuracy during the CoS transfer was the most important issue for many" (Ipsos Mori Social Research Institute 2013)

³ "On the whole, most participants did not have strong feelings about the process being overhauled and suggested only conservative improvements in timings. This is because most participants perceived a quicker process to involve a 'trade-off' in the quality or accuracy of the process or consumer protection." (Ipsos Mori Social Research Institute 2013)

change. Most importantly, we want to avoid introducing any unintended inefficiencies or negative impacts that might disrupt the customer journey⁴.

Additionally, the quantitative evidence used as the basis for Ofgem's impact assessment originates from the Request for Information issued to stakeholders in October 2013. Given the difficulties faced by any organisation in being able to provide an accurate forecast of costs as far forward as 2028 (particularly in the context of such a fast-paced regulatory platform against which our industry operates) and without a formal impact assessment process, we are concerned whether a truly reliable account of industry system impacts has been captured and justifies the selected reform option. For that reason, SSE supports the undertaking of further work to ensure that the impact assessment relied upon is robust and reasonable.

Conflicts with ongoing work streams

Given the complexity and far-reaching nature of the proposals, we also recognise the potential for gaps and overlaps during the design and implementation stages. We would welcome assurance on the overall regulatory framework to ensure that these proposals do not conflict with ongoing work streams, for example the review of funding governance and operational arrangements for Xoserve, as mentioned in our response to question 2, Chapter 5.

Best value to customers

In relation to the costs associated with the provision of a centralised registration service, it is vital that when appointing the service provider the principle of transparency is adhered to and that there is a mechanism in place to ensure costs are competitive and represent best value to customers.

The cancellation period

Ofgem notes that "consumers must be confident that they can cancel their contract with the new supplier after the switch" and sets out its initial thinking in relation to the cancellation period (paragraph 3.35). SSE recognises that this is important both from the perspective of meeting our legal obligations and also to build customer trust. However, we feel that Ofgem's proposed solution to return customers to their previous supplier is not workable when considered against the existing legislative provisions relating to deemed contracts. In addition, SSE considers that this approach may create potentially significant practical difficulties.

⁴ "The barriers that deter most consumers from ever reaching the final stage of the consumer journey (i.e. switching to a new supplier) were: ... customer input. Some perceive the level of involvement in the early stages to be so off-putting that they do not engage in the first place. " (Ipsos Mori Social Research Institute 2013)



Ongoing engagement

As noted, we have a number of concerns regarding Ofgem's proposals, however SSE is supportive of achieving workable reforms to improve the change of supplier process for the benefit of customers and in doing so, build on the improvements that faster switching will bring at the end of this year. SSE is committed to working with Ofgem to ensure that a good solution is identified and implemented.

Given the key role SSE played in the successful development of the faster switching model, we would welcome the opportunity to assist with the developments of an improved switching model. At this stage we would welcome a bi-lateral meeting with relevant colleagues at Ofgem to discuss our thinking and learn more about Ofgem's vision for next-day switching and the forthcoming review of the objections process, as well as to discuss our concerns in relation to the cancellation period and the potential impacts of next-day switching on the non-domestic sector, which we note are not covered in as much detail as for the domestic sector.

If you have any questions, please do not hesitate to get in touch. Otherwise, we look forward to setting up a meeting at your earliest convenience.

Yours sincerely,

Patricia Hall
Regulation, Markets

Annex 1 – SSE response to consultation on moving to reliable next-day switching

Chapter 2

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

Ofgem has identified a number of perceived benefits associated with improving the switching process in chapter 2 of their consultation document, particularly in paragraph 2.2, with which we generally agree. Ofgem also notes that there are other drivers that influence customer switching such as ease of selecting the most appropriate tariff and confidence in getting a better deal. Ofgem also highlight that it expects suppliers to respond to market changes by providing good service, innovation and competitive prices. All of which represent benefits.

The ability to realise these benefits will depend on a robust, reliable, and effective regulatory environment. We therefore caution that the regulatory and industry process design must be carefully considered to ensure it does not unexpectedly introduce any unintended consequences such as inefficiencies in service provision or other negative aspects that compromise customer service and discourage market participation. As we note in our covering letter, Ofgem's research indicates that customers' main deterrent to engagement was not speed of the CoS process^{5, 6}. We therefore very much look forward to contributing to the design of the underpinning regulatory and industry code frameworks to ensure the best outcome for customers.

Chapter 3

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 comments at this stage

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

Next-day switching proposal

SSE supports Ofgem's proposals to improve switching. However, we note that of the various options considered, Ofgem have opted for the option with the highest risk. We have highlighted some of these risks in the relevant question (chapter 5, question 2). Thus, whilst

⁵ "...the speed of the CoS process was not the main consideration influencing the decision to switch and it was of low salience to most people". (Ipsos Mori Social Research Institute 2013)

⁶ "The barriers that deter most consumers from ever reaching the final stage of the consumer journey (i.e. switching to a new supplier) were: ... customer input. Some perceive the level of involvement in the early stages to be so off-putting that they do not engage in the first place. " (Ipsos Mori Social Research Institute 2013)

at this stage we are cautiously supportive of the concept of next-day switching, we are worried about the associated risk, not only to industry systems, but to the customer service landscape.

New centralised registration service operated by the DCC

We believe that whichever body is given the responsibility to provide the service, it is important that it is appointed in a way that best adheres to the principles of cost-efficiency, value for money, and transparency. Importantly, this must be clearly demonstrated to industry and consumers to ensure confidence that the costs of the reforms are fully justified. These principles will, of course, include the associated costs of procurement for the centralised registration service provision.

We fully agree with the risk highlighted by Ofgem in paragraph 5.12 of the consultation document that the expertise of the DCC needs to remain focussed on the set-up of their smart meter communications system, and that this project runs the risk of distracting the DCC from establishing its systems for the roll-out of smart meters. We note that the DCC has a number of challenging objectives scheduled for delivery in the same period as the proposed implementation of next-day switching reforms.

Alternative model

We are supportive of a centralised registration service being managed via a robust governance framework that can be associated to licensed parties, thereby enabling the incentivising of behaviours.

We would be interested in discussing with Ofgem some developments in our thinking in relation to the governance of next-day change of supplier (CoS) service provision and market rules under industry codes. Rather than governing both elements under one code, e.g. the SEC, we see benefits in using two codes. For example, the format of the Smart Energy Code (SEC) would make it a suitable vehicle for next-day switching service provision but the market rules that will facilitate next-day switching could be governed under a new cross fuel code, which could bring a clear, effective, flexible and efficient solution that could be adapted easily to future requirements. We would welcome a discussion with Ofgem to explore our thinking.

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

At this early stage our only comment would be that there isn't necessarily an external structural issue and therefore the changes should not affect the industry balancing arrangements. However, any uncertainties associated with increased volume and frequency of switching will affect supplier demand estimation and forecasting, which will represent a risk. This risk will have to be built into supplier pricing structures and may ultimately increase the cost to serve.

Chapter 4

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

SSE fully supports Ofgem's proposal to exclude a central electricity metering database from the next-day switching reform. We agree that the assurance measures required to ensure accuracy would be challenging, and that there will be a short-term material benefit for traditional meters (i.e. around three years). Furthermore, we agree that the database would not facilitate faster switching for prepayment customers. We also highlight that if the P272 modification is implemented, Profile Class 5-8 customers will move to half-hourly settlement, reducing the number of Advanced Meter Read (AMR) meters that would benefit from the new database.

Ofgem states in paragraph 4.7 that it believes that the metering issues affecting speed and reliability of the CoS process (i.e. cancelled appointments and ensuring a Meter Asset Manager (MAM) is present) can be resolved by the new supplier ensuring agents are appointed quickly and that appointment requests are only rejected in extreme circumstances. We agree with Ofgem in that it is sufficient to ensure suppliers strengthen current contractual arrangements and the associated processes rather than develop a new database.

Currently SSE has a rigorous contract management process in place that ensures appointments are made on time and that when we contact the appropriate agent, all the necessary contractual provisions are present. This model is an enduring one that will be utilised beyond 2018. In conjunction with other measures there may be scope to improve this further and we would be open to discussion.

For example, there could be benefit in developing a customer engagement piece that gives customers top tips on how to get a faster transfer, for example, by asking the customer to have certain meter technical details and information on contractual arrangements to hand when they contact us. As well as achieving the same objective at a lower cost, it would highlight to customers the importance of meter details. However, we must be careful not to place a burden on customers that might deter them from engaging and ultimately switching.

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?

As above we support the proposal to exclude a metering database from the reform package, however, if it were to be introduced, we would oppose the inclusion of smart meters because the DCC will hold technical meter details that can be accessed remotely.

There will be some customers that still have traditional meters in 2020, but we feel we would be more experienced as an industry to make a decision at the time as to how best to

address these customers, depending on existing populations etc. We feel that it is too early to find a solution for a problem we do not yet know enough about. By addressing these customers – and other customers who cannot be settled using actual data – later in the roll-out programme, we will have a better opportunity to find an all-encompassing solution that can address other categories of consumers who cannot benefit fully from smart roll-out.

Chapter 5

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

Given the huge impact this will have on customers, we agree with principle 1 (focus on consumer outcomes), particularly because it demonstrates Ofgem's commitment to ensure the project design decisions take account of the risk of these changes to consumers. We have endeavoured to explore these risks in our answer to question 2, below.

Principle 2 states that Ofgem would like to explore bringing forward the 2018 go live date. While we fully support industry change programmes that improve the landscape for customers and for competition, we disagree with the principle of implementing next-day switching earlier than 2018 for the following reasons:

- Firstly to ensure that the timing of the project allows that the most relevant and experienced industry colleagues are committed and suitably engaged in the programme to ensure we get the outcomes for consumers that Ofgem wants.
- Secondly to mitigate the risk of industry reputational damage, should the programme experience delays or problems associated with the roll-out of smart meters.
- Thirdly, later this year industry will implement significant improvements through faster switching; the benefits, opportunities, and threats of which are yet to be identified. Thus, it may be a more prudent approach to identify how lessons learned through the arrangements in a faster switching world could provide further justification for next day switching proposals.

Principle 3 aims to make best use of industry expertise, which we fully support. As such, we would like assurance from Ofgem that timetables for implementation covered in principle 2 and in paragraph 5.5, Figure 2, take account of the importance of principle 3. In paragraph 3.22 Ofgem highlight the risk of competing priorities for the DCC and suppliers; it is worth noting that this risk also applies to network operators.

We fully agree with principle 4 and the importance of properly identifying and managing risks.

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, centralised registration)?



Although as yet we have only carried out a high level internal impact assessment, we have identified a number of operational issues. By moving to next-day switching, there are a number of key processes and checks that will have to take place after the customer has already switched and is being supplied by the new supplier; these changes bring risk that will have to be mitigated in a way that does not damage the customer journey.

Cancellation during cooling off period

We have highlighted in our covering letter our concern that returning customers to their previous contractual arrangements is unworkable when considered against the existing legislative provisions relating to deemed contracts. An additional concern is that under Ofgem's proposals, we will be supplying a customer with energy before they have gone through the cancellation period and there is therefore a risk that they may cancel during that period. Customers that cancel will be due a bill for the brief time they are with the new supplier. Recovery of these costs could be challenging and the risk of having to write off that debt will have to be mitigated; it is possible that this will increase costs for customers overall.

Length of acquisition process

Another impact on the customer journey is that certain changes to service might increase the length of the initial acquisition process. For example, currently the CoS meter reading is collected when the meter details are known, usually within 5 days of supply start date, this allows an accurate opening bill to be created. In order to create an accurate opening bill under the next-day switching proposals, we would need to explore how and when this data is gathered. For example, we could explore the option of requesting that the customer supplies the meter read during the registration process. In other instances, there may be information that we have to provide customers before they 'sign up', so again, this could be provided during the registration process.

As well as the above issues that have the potential to disrupt the customer journey, we would also like to note the following issues that we feel require further industry discussion before risks and impacts can be quantified.

Address data migration to new system

Next-day switching will lead to an increase in data transferred during the transition to the new arrangements. Given that high volumes of data transfer inherently increase the risk of error, there is the potential risk of inaccurate billing due to incorrect transfer of data between systems. In such cases we may need to consider options for data cleansing, which could lead to increased costs.

Conflicts with ongoing regulatory work streams

It is important that industry has confidence that the next-day proposals avoid conflicts with ongoing regulatory work streams and new and existing licence obligations. For example, we note the review of the funding governance and operational arrangements for Xoserve could

change licence obligations relating to gas supply point registration services. Decisions made under this review are highly relevant to the proposals for next-day switching. We would therefore welcome an overview of how the output of this – and other relevant work streams – will influence the next-day switching proposals, and vice-versa. This would help ensure efficient co-ordination and reduce the risk of conflicts.

Clarification of programme scope

There is a need for clarification of the scope of the centralised registration service in that network operators' current systems are used for purposes other than facilitating change of supplier e.g. registration, new connections, disconnections, Distribution Use of System (DUoS) billing and planned and unplanned engineering works. Depending on the scope of the proposals, provision will need to be made for networks to hold or access relevant data to allow them to fulfil these functions. In particular it would be useful for Ofgem to confirm whether the responsibility of the creation and deletion of supply points will remain with network operators.

Exchange of security credentials under smart

In relation to the gas confirmation window and smart CoS, we are concerned about whether the proposed timescales would be sufficient to allow the DCC to successfully action all exchanges of Security Credentials. If there was a problem that prevented this exchange e.g. due to a problem with communication functionality, there are no contingency arrangements to rectify this before the customer expects to switch and see their new tariff on their meter.

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

In principle, we believe the intended overall stages of the project are valid albeit challenging in view of the intended timetable and other regulatory commitments either already committed or upcoming.

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?

We believe it is essential for industry parties to be involved in designing the Target Operating Model for the new switching arrangements as these parties will be the enduring users of the registration service and will need to ensure it is fit for purpose.

We appreciate the attraction of a licensed body such as the DCC in leading this work, however, as detailed in Question 5 below, we are not convinced that this is necessarily the best solution. We believe the increase in responsibility places an unacceptable level of risk and liability on a single licensed entity, performing a unique function. We do not believe there are sufficient mitigations to satisfy any failure in providing these business critical mechanisms.

We believe that there is significant regulatory design expertise in industry and through other large change activities, such as the Smart Metering Programme, industry has been

able to work alongside government and the regulator to deliver the necessary regulatory designs. In terms specific skills around developing a Target Operating Model and facilitating the necessary discussions, we believe the only viable option would be a joint procurement of appropriate technical expertise potentially through the auspices of an existing energy code administrator. Regardless of the option chosen, it is vital that the solution ensures relevant industry expertise is utilised.

5. What do you think are the advantages and disadvantages of the DCC being directly involved in the design of a TOM for the new switching arrangement, and the development of the detailed changes required?

Whilst there are advantages in involving DCC in the development of the Target Operating Model (TOM), we do not believe it appropriate that DCC should lead this work. Firstly, it is not good practice for a service provider to define the service that industry will contract it to deliver. Secondly, the timing of any work on the TOM would coincide with critical phases of the Smart Metering delivery and risks distracting DCC from this important activity. This was one of the reasons that the provision of registration services was removed from the initial Smart Metering scope.

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

We believe that the arguments for and against using a Significant Code Review (SCR) to make the necessary regulatory changes are finely balanced and that industry has shown, through its work on delivering faster switching, that it can step forward and deliver the required reform.

The key criterion on whether an SCR will be required is the extent of the adjustments needed to both the Licences and Industry Codes. We do not believe that this is a judgement that can be made until the size and shape of the regulatory design has been agreed.

Whilst we agree that any reform of CoS could become complex, we believe that with the correct regulatory design where service provision is simplified to allow flexibility in wider market design, the necessary regulatory changes need not be in themselves overly complex. We would welcome the opportunity to discuss our thinking in this area further.

7. Do you agree with the proposed implementation timetables?

We generally agree with the implementation timetables though we have some significant concerns, specifically in relation to bringing forward the proposed go-live date.

- Smart roll-out is due to be completed by 2020 therefore next-day switching will have to work for both traditional and smart meters. This will inevitably increase the complexity and cost of the project.

- Industry resource is already committed to smart roll-out and faster switching. Introducing a third major industry change programme at the same time will be challenging, but bringing forward the go live date could be prohibitively high risk.
- A significant issue is the reliance on limited key resource and expertise – across industry parties – for which scaling becomes problematic to overcome. In view of this shortcoming, delivery of the existing overall regulatory programme (either committed or upcoming) will be highly challenging. It may also be prudent to take stock of the substantive faster switching changes due to be implemented later this year, prior to consideration of any attempt to fast track an already challenging move to next day switching in 2018.
- From an internal IT management perspective, we foresee significant risk to industry parties in bringing forward the go-live date. A project of this scale, affecting a complex business area, and using a combination of major IT systems, will require significant IT resource. A successful delivery will require key project roles to be fulfilled by IT resource with significant levels of expertise in internal business processes and systems. The required level of expertise is limited and is currently heavily dedicated to other major regulatory driven projects, such as Project Nexus, DCCI, Smart Prepayment, and the development of interfaces with DCC systems, which are all expected to deliver in 2015 assuming industry plans do not change. If next-day switching is brought forward to the point where it clashes with these projects, industry parties will not have sufficient IT knowledge and expertise to support next day switching, therefore parties would be forced to divert the required expertise from their key roles on other regulatory projects. This will risk spreading the expertise too thinly and risk industry's ability to deliver the affected projects to the expected standards and timescales.

8. Are there ways to bring forward our target go-live date?

As noted above, we believe there are already significant risks associated with the proposed timetable. Bringing forward the go-live date will intensify these risks and introduce new ones, specifically in relation to the availability of industry and supplier-specific resource and expertise.

Appendix 3, 4 and 5

No comments at this stage