

OFGEM 'MOVING TO RELIABLE NEXT-DAY SWITCHING' CONSULTATION

VOCALINK RESPONSE

VocaLink welcomes the opportunity to respond to Ofgem's consultation on '*Moving to Reliable Next-Day Switching*' and welcomes Ofgem's preferred approach – a centralised registration and switching system. This paper sets out our response to the consultation questions – where it is appropriate for us to put forward an answer – from the perspective of an organisation that has implemented and is currently running one of the highest profile consumer switching systems in the UK economy.

ABOUT VOCALINK

VocaLink provides the infrastructure - or the 'plumbing' - for the UK's payments system, and as such plays a fundamental role in the functioning of the economy and the delivery of public services. It processes around 10 billion transactions each year, with a combined value of about £5 trillion. It provides the central infrastructure for Bacs Direct Debit and Credit payments and the Faster Payments Service; and manages the world's busiest ATM network (LINK), connecting around 60,000 ATMs. It operates the banking industry's successfully implemented Current Account Switching Service and the ISA Switching Service; and hosts their new proxy service which links mobile phone numbers to bank account details, enabling mobile payments (Paym). VocaLink is also a trusted partner of the UK government, responsible for processing 98% of all the state benefits paid in the UK. We also play a critical role in the functioning of the energy industry, enabling millions of customers across the UK to pay their bills by Direct Debit, standing order and online banking payments.

The fundamental role that VocaLink plays in the functioning of the payments system has enabled us to identify where else this infrastructure can deliver both economic and societal benefits and places us in an ideal position to explore the 'art of the possible' with policy makers and regulators.

As such VocaLink has approached the challenge of how to make switching tariffs between energy suppliers quicker, easier and more reliable from the standpoint of its experience in successfully (and recently) delivering two other forms of consumer switching – ISA switching and retail bank Current Account Switching Service (CASS) - the "Seven Day" service introduced in September 2013.

KEY POINTS

Synergies between Current Account Switching & Energy Switching

- The structure of the switching process in Current Account Switching shares many common features with Energy Switching: for example, a sequenced and regulated exchange of messages between the parties to progress the switch through a number of stages; the need for absolute certainty to switch within the specified time; and a simple and clear proposition to the customer. In addition, some of the stages in the Current Account Switching process appear functionally similar: for example, the first stage which deals with an initial exchange of information to establish the validity of the switch.
- The challenges of implementing more reliable next day switching in the energy industry are also similar to those of implementing a faster current account switching service, especially against the context of a challenging timeline for implementation proposed by Ofgem.

Recommendation

- That Ofgem takes on board the experiences of the retail banking industry in the successful implementation of the CASS in a tight timeframe, under intense regulatory and Government scrutiny and that, where possible, it adopts similar practices, processes and designs to this project.

Consumers as the core consideration

- The switching system needs to be designed in a way that can deliver maximum benefit to the consumer, with decisions around its design, process and implementation being made with this as the core consideration – as opposed to the design, process and implementation fitting within the parameters imposed by energy suppliers' existing legacy systems and processes.
- The final next-day switching system will need to accommodate the requirements of a range of demographics of energy consumers – i.e. next day may not be suitable for some, so selecting a date may be appropriate; and some of the consumers most likely to benefit from switching may not have access to the internet, so multiple ways to switch are required.
- From the moment a consumer initiates a switch - to be switched to a new supplier the following day - 'the clock' should begin ticking. Issues such as transfer blocking and cooling off should not limit the ability of the consumer to benefit from the advantages of switching energy supplier from the following day, such as lower energy costs and improved customer service. These issues can be resolved either concurrently with the switch, or in the days after the switch, without affecting the consumer.
- The benefits that will be derived by consumers from a next-day switching system will be negated for some customers by the potential problems caused by unilateral plans by individual energy suppliers to implement their own pre-payment systems for smart meters, with very limited consideration of wider interoperability issues.
- Ofgem should consider whether the legacy processes of the switching system are fit for purpose and are focused on the consumer, rather than the energy suppliers. For instance, under the proposed next day switching system, Vocalink believes that incorporating transfer blocking/objections is a moot point and would recommend that Ofgem considers a third option of removing objections from the switching process altogether.
- Similarly with cooling off periods - in the spirit of reforming the switching system based upon the best interests and needs of the consumers and not the energy suppliers, it is important that the consumers derive benefit from a switch 'the day after they decide to do so' rather than the day after the cooling off period of 14 days has expired. Should the customer change his mind during the cooling off period, they should be able to switch back. If the cooling-off period expires before the switch, the consumer has no opportunity to experience the customer service of the new supplier and switch back if unhappy

Recommendations

- That a regulatory work stream (see below) cross-checks the planning and implementation of the switching system at regular checkpoints to ensure that benefits for the consumer are consistently at the forefront of consideration.
- That Ofgem brings forward its planned review of transfer blocking/objections and integrates this into the planning process for the next-day switching system. A third option of completely removing transfer blocking from the switching system should be considered.
- Any cooling off period should run concurrently with the switch, rather than before the switch.
- That Ofgem works with DECC to produce industry guidance for the implementation of interoperable or standardised pre-paid payment systems for smart meters – as soon as possible.

The switching infrastructure

- Vocalink agrees with Ofgem's recommendation that a centralised registration system is considered ahead of updating current systems. A single and centralised switch oversight function would bring significant benefits in terms of overall cost reduction (infrastructure), and a significantly improved ability to monitor and manage the switching process holistically. The current existing network-run switching service would not adequately and cost-effectively allow switching to be monitored by a central body, and as such would negatively impact upon customer confidence in the new service.

- There are close synergies between the creation of a central messaging service at the heart of the banking sector's switching system and the switching requirements of the energy industry.

Recommendations

- Ofgem should evaluate the benefits of replicating the principles, protocols and architecture of the existing and successful CASS in the retail banking sector, to minimise costs (which could otherwise be passed onto the consumer), disruption to the provision of services and to achieve the challenging timeframes it has set out.
- Using the same underlying messaging system that was built for the CASS service will significantly reduce the implementation time for the next day energy switching service – as the principles, basic architecture and learnings from this system can be replicated at the centre of the energy market.

Implementation

- Q3 2018 is an ambitious target to hit. From our experience of implementing the complex CASS project within demanding time constraints, we do not agree with the proposed implementation timetable as set out by Ofgem. The elapsed time looks adequate; however there is too much activity being conducted serially and not in parallel, with the result that the implementation timeframe looks unachievable, unless this is addressed.
- Ofgem faces a significant challenge in providing the greatest possible time to begin systems design and build, with adequate time being given to critical systems testing. In many large scale change programmes not enough time is given to system testing and integration testing; and this leads to project overruns. With a project such as energy switching, if there are problems on the go-live date that have not been rectified, it will be very hard to recover the consumers' confidence in the service.
- Significant effort is required as soon as possible to provide the necessary regulatory environment for the switching system to be implemented. Similarly, the sooner a consumer focused Industry Service Definition (i.e. requirements) for next-day switching can be developed and tested (potentially by small trials/pilots) the easier it will be to put in place a plan for both the process/people changes that will be required as well as the IT systems changes.
- For a new switching system to be effective, it would need the buy in of all energy suppliers and a commitment to implement by the proscribed 'go-live' date. This may prove hard to achieve given there are vested interests in minimising the cost of change and potential disruption to existing business processes. An industry-wide change project such as next day switching can only go-live if all the energy suppliers and their agents have fully implemented the necessary changes and connected to the central messaging system. Each of these may be starting this process from a different position and some may require a more disruptive/costly business change process than others.
- Concrete steps to bring forward the go-live date from Q3 2018 cannot be given until a detailed specification of the system has been drafted. There are, however, a number of actions that the regulator should consider to provide the best platform for early implementation and to ensure that the project does not, at the very least, stretch beyond its latest go live date.

Recommendations

- As was the case in the implementation of CASS to similarly tight timeframes, there needs to be a clear mandate from the Government and the Secretary of State for Energy and Climate Change at the outset of the project, and clear penalties for parties not achieving pre-set checkpoints, to motivate the energy industry to meet the go-live date (and potentially sooner).
- It is appreciated that the DCC or its contracted project management company will draw up a more detailed implementation plan, however Vocalink believes that the nuances of the delivery of such a project that requires significant work in both the centre and at an energy supplier level, to a challenging timescale, should be factored into decisions made by Ofgem now.
- That the project be split up into a number of work streams as soon as possible – in early 2015 at the latest - to progress the multitude of tasks concurrently, rather than serially. Strong

governance will be critical to the successful implementation of this project and will need to be in place as soon as possible.

- In order to validate the process/people changes that a customer focused next-day switching service will inevitably need (i.e. the service requirements) the process interactions between the consumer, 'old' supplier, 'new' supplier and the central service should be trialled/piloted at the earliest opportunity.

RESPONSES TO QUESTIONS

CHAPTER: 2 – the Case for Reform

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

VocaLink largely agrees with Ofgem's description of the benefits of improving the switching process as they relate to consumers. However, we feel that there are also benefits that can be derived by energy suppliers depending upon the specific aspects of the switching solution that is built. These include:

- A quicker and less complicated switching process would also enable the costs of switching to be reduced for energy suppliers. For instance, the cost of failed switches can be high for energy companies (as set out in Ofgem's consultation) and it is envisaged that a centralised registration service would help to reduce this. Similarly a greater degree of automation of the service would reduce the resource that energy suppliers allocate to the current manual switching process.
- All energy suppliers suffer reputational damage from the inefficient and unreliable switching process. It is in all of these suppliers' interest to have more satisfied customers, even if some companies will have a net loss of customers from switching.
- Depending upon the solution that is chosen by Ofgem/DCC, following the principles, protocols and architecture of the CASS design would present a cost-effective alternative to building a complex new central hub from scratch (costs that would probably be passed onto the consumer); and would offer the possibility of lower ongoing maintenance costs than a bespoke system.
- On a broader level, it is envisaged that a centralised messaging hub would help to lower the barriers to entry for new entrants to the energy market – specifically by mitigating the current need for new entrants to work with incumbents' legacy systems and processes. The scale of the costs to 'plug and play' for new entrants will depend upon the solution that Ofgem/DCC decides upon.

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?**

A single and centralised switch oversight function would bring significant benefits in terms of overall cost reduction (infrastructure), and a significantly improved ability to monitor and manage the switching process holistically. For example, being able to see how well different stages of the switch process are working and being able to maximise data quality by having validation functions performed in one place will lower the on-going costs of maintenance and of the change programme in the first instance. Similarly it will enhance the consumer

experience of switching and provide confidence that the switch will take place quickly and with minimal input required from the consumer.

VocaLink does not believe that the current existing network-run switching service would adequately and cost-effectively allow switching to be monitored by a central body, and as such it would negatively impact upon customer confidence in the new service.

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

VocaLink strongly believes that the Ofgem's proposal to implement next-day switching on a new centralised registration service is the correct option for reform, rather than adapting current systems and processes. A centralised system, as Ofgem sets out, will:

- Facilitate a greater level of oversight of the system (and therefore increase customer confidence);
- Facilitate faster switching (and enable customers to benefit from 'n' days of cheaper energy supply and improved customer service, post switch)
- Reduce the operational costs of the switching system for all energy companies i.e. a reduction in failed switches, erroneous switches & reduction in the resource required to facilitate the current network switching system that requires more manual intervention.

We do not believe that an incremental change of the current system will be sufficient to deliver the benefits expected by consumers, to the degree that a transformative next-day switching system based around a centralised registration service will deliver.

Instead, Ofgem should closely evaluate the benefits of replicating the principles, protocols and architecture of the existing CASS in the retail banking sector, to minimise costs (which might otherwise be passed onto energy consumers), disruption to the provision of services and to achieve the challenging timeframes Ofgem has set out. As stated in this response, there are close synergies between the creation of a central messaging service at the heart of the banking sector's switching system and the switching requirements of the energy industry.

VocaLink does not have a view on whether the service should be run by the DCC or another body. However, whichever body runs the service, independence from the energy suppliers is a pre-requisite for the success of the switching system – in order to ensure that the service is not unduly influenced in favour of one/a number of energy suppliers.

However, in establishing a new centralised registration service, there are other issues that need to be taken into account in its design and implementation:

- **Switching to suit all consumers**

VocaLink feels that whilst a next-day switching service will be beneficial for the majority of consumers, it will also be important for the system to avoid excluding (albeit unintentionally) any element of society. In designing and planning a next-day switching service, Ofgem will need to consider:

- That next-day may not suit every consumer, and the system should allow consumers to pick their switch date – as the next day may not always be convenient (e.g. if the consumer is moving house, with a gap in the middle).
- Similarly Ofgem will need to consider how consumers will be able to switch. Whilst online switching may prove the most popular and convenient for many consumers, it is also the case that some corners of society that may benefit the most financially, from a switch to a cheaper energy supplier, may not have access to the internet. Therefore VocaLink believes that switching one's energy supplier should also be initiated via phone call. If postal switching is also considered, 'next day' may not be practicable in this instance.
- Ofgem will also have to consider how the switching system is compatible with the methods that consumers use to pay for their energy consumption. With the implementation of smart meters, many energy suppliers are reviewing payment options on a unilateral basis. Some customers may have limited access to payment methods for

pre-payment meters. If the new supplier does not offer a payment method to which the customer has access, the customer will be unable to switch. Therefore ubiquity of payment methods may be essential to enable all energy customers to benefit from switching.

- **Cooling off period**

However, VocaLink believes that the cooling off period should run concurrently with the switch, rather than before the switch. In the spirit of reforming the switching system based upon the best interests and needs of the consumers and not the energy suppliers, it is important therefore that the consumers derive benefit from a switch 'the day after they decide to do so' rather than the day after the cooling off period of 14 days has expired.

The system should then still enable them to switch onwards to another supplier at no increased risk, and must also allow the consumer to switch back to the original supplier – during the 14 day cooling off period. The point about cooling-off is that the customer is not contractually bound to the new supplier for this period; and may revert or switch onwards with no penalty. Similarly the system should be fast and reliable enough for the consumer to do so without incurring any inconvenience or repercussions.

- **Cost recovery for service**

VocaLink's experience from the implementation of CASS was that whilst it initially seemed logical that the new service provider foot the transaction charge for the switch, it became apparent that it would be the challenger banks who would be acquiring more customers than they were losing; and therefore taking a disproportionate share of the costs. The outcome was therefore to split the switch-cost equally between the losing and gaining parties thereby ensuring the challenger banks were not disadvantaged. The same logic would be relevant to energy switching and should be taken on board by Ofgem.

- **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?**

Faster switching would not have a detrimental impact on the gas and electricity balancing arrangements, since the consumer is likely to have the same usage patterns after switching and there is no physical change to their supply connection. If anything, faster switching would be beneficial to balancing arrangements by encouraging people to move to more efficient suppliers with more effective balancing in their tariffs. For example, the new supplier may offer a tariff that varies by time of day and so more accurately reflects supply and demand.

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?**

VocaLink believes that a central metering database would aid the efficient operation of the next-day switching system; but the benefits will only persist up to 2020 when smart metering is implemented nationally. Therefore we agree that it should be out of scope.

- **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?**

As with our answer to Chapter 4 Question 1 above, as the benefits will only persist until 2020 it should be out of scope for implementing a faster energy switching system.

CHAPTER 5: Implementation Approach & Timescales

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

We agree with the thrust of the implementation principles as set out – with some caveats:

Principle 1 – Focus on customer outcomes

Fully agree. The current processes are built within the parameters of what the current systems and processes of the energy industry will allow, rather than what is in the best interests of the consumer. This should no longer be the case and is an area where the trialling/piloting of consumer focused switching processes during 2015 would support 'customer outcomes' being at the heart of any next-day switching service.

Principle 2 – Implement as soon as possible

The targeted go-live date of the end of 2018 will be challenging as things stand, and even more so if the energy industry is resistant to change, which is likely given the scale of change required. Therefore if this go-live date is to be achieved, and even successfully brought forward, there must be a strong governance structure in place to drive the implementation process and also, importantly, government oversight and sponsorship of the process – with stated sanctions for relevant parties if checkpoints are not met. Vocalink also believes that to reduce industry-originated delays, Government ownership and backing of this project needs to be set out from an early stage.

The CASS was successfully implemented within 2 years with rigid oversight and backing from HM Treasury a contributory factor.

Principle 3 – Make best use of industry expertise

Agree. However Vocalink would also suggest that it is not just energy industry expertise that is required but also experience from other industries of delivering consumer-orientated projects (and preferably switching projects) successfully. Given the transformational nature of the next-day switching proposition and the fact that it is a break from the traditional approach of the energy industry, there should be a balance of energy industry, switching and other relevant expertise involved in the project and its governance.

Principle 4 – Identify and manage risks

Fully agree.

- **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)?**

Vocalink largely agrees with the categorisation of the key implementation risks and issues that Ofgem has set out, but there are some additional points that we feel are important for Ofgem to consider:

- Risk of delay

If the challenging go-live date of the end of 2018 is to be achieved, or even brought forward, this requires industry 'buy-in' from the very beginning. This was achieved in the implementation of the CASS by HM Treasury gaining commitment from the CEOs of the banks, to a mandated completion date.

Overt 'oversight' from the relevant Secretary of State and/or Minister is therefore very important for ensuring that the switching system is completed to time and to specification.

- Competing industry priorities

VocaLink would suggest that if there is concern about DCC being overstretched in meeting next-day switching requirements and their other priorities, that a condition of their managing the implementation would be a guarantee that they had sufficient resource to handle all their commitments adequately. With regards to energy suppliers, Government motivation will help to ensure that they are dedicating adequate resource to this project, alongside other industry priorities. If the process is managed well, with an adequate governance framework and the motivation of government involvement if required, competing industry priorities should not be an issue.

Overlapping all four implementation issues and risks that Ofgem has identified is the fundamental requirement for a strong project management team that – as set out in Question 1 – draws upon all relevant expertise and is able to mitigate the four implementation issues and risks through the duration of the project. This project management team will be working within the parameters of a strong governance framework with Government at the very top, ready to step in to remove obstacles and encourage enhanced efforts as required. This was one of the major reasons why CASS was successfully implemented within the prescribed timeframe and VocaLink would strongly recommend Ofgem seek to replicate this approach as soon as possible.

Additionally, there are other implementation issues and risks that Ofgem should consider:

- Lack of collaboration & uniformity – smart meter payment options

Currently there is a lack of a 'joined-up' industry approach to formulating and implementing payment options for smart meters – particularly in relation to pre-paid smart meters. Fundamentally, allowing divergent payment models to flourish runs the serious risk of nullifying the consumer benefits of and indeed significantly inhibiting the uptake of the next-day switching service (i.e. open to all consumers regardless of circumstance; and indeed used by these consumers).

The concern is the different ways in which energy suppliers are currently approaching payment options for smart meters in preparation for when they are rolled out, particularly pre-payment options. Several suppliers are now issuing, or are about to issue, 'Invitation to Tenders' for these payment models, to be ready for smart metering. However from our experience of being involved in some of these tender processes, they appear to be approaching this in notably distinct and potentially incompatible ways. Energy suppliers are of course fully entitled to do this and in the absence of any central initiative or industry guidance from DCC, DECC or Ofgem to address this requirement, it is logical that individual energy suppliers look to build a payment process that best fits their own business models and technology infrastructure, to limit disruption and provide as good a service to their customers as possible. However, an unintended consequence of this disjointed approach is that a range of different payment models are likely to be adopted which will be neither collaborative nor interoperable.

For a pre-payment smart meter customer this might mean their old supplier reference number would not work with their new supplier and/or the location; and how they 'top-up' their smart meter would be different on a supplier-by-supplier basis. Given that it is pre-payment customers that are often the poorest in society and whom could benefit most by switching energy suppliers, this would limit their access to the switching system.

The effect is the substitution of one set of switching delays (e.g. delayed or contested meter readings; or cooling off periods) with another, around incompatible payment mechanisms. This of course poses questions about the longer term success of the switching system.

To avoid this, in our view it is essential for there to be some central guidance (from DCC, DECC or Ofgem) to ensure that suppliers in choosing their payment systems progress in an agreed collaborative way to guarantee interoperability, that can then be built into the proposed next day switching system.

- A changing political environment

With a General Election due to take place in May 2015, it is important for the successful implementation of the next day switching system that whichever party/parties takes office afterwards is/are supportive of continuing industry efforts. As Government mandation is a key motivating factor for parties to implement the project successfully, it would be important for this motivation to remain in place, even if there is a change in government.

- **Question 3: Do you agree that we have identified the right implementation stages?**
- **Question 7: Do you agree with the proposed implementation timetable? Are there ways to bring forward our target go-live date?**

At a high level, VocaLink would agree that the stages set out in the consultation document follow a logical flow. However, from our experience implementing the complex CASS project within demanding time constraints, we do not agree with the proposed implementation timetable. The elapsed time looks adequate; however there is too much activity being conducted serially and not in parallel, with the result that the implementation timeframe looks unachievable.

A significant challenge that Ofgem faces is providing the greatest possible time to begin systems design and build, with adequate time being given to critical systems testing. Ofgem should bear in mind that implementing a next-day switching system:

- a) Requires a significant change to the legacy systems and processes of energy companies; and will be a greater challenge for some suppliers than others...
- b) ...And as a result Ofgem may face significant resistance from energy suppliers on parts of their strategy, to mitigate the disruption and costs of change;
- c) As this is an industry-wide change programme, it will only be able to move as 'fast as the slowest wagon in the convoy'.

Therefore, if changes are required to the current regulatory regime before implementation can take place, VocaLink would recommend that this is undertaken as quickly as possible, and that the Secretary of State for Energy & Climate Change seeks and receives commitment from the CEOs of all participating energy suppliers and other key stakeholders to achieving the go-live date and the checkpoints over the duration of the project lifecycle.

Similarly, Ofgem and the DCC should identify where the process set out in the consultation can be streamlined – and in particular identifying where currently the process is to run in series and where elements of the process can in fact be implemented concurrently. From our experience of implementing the CASS, we believe that there is significant opportunity to run various strands of the project concurrently, to ensure the project lifecycle fits within the delivery timescales.

Possible implementation lifecycle

It is appreciated that the DCC or its contracted project management company will draw up a more detailed implementation plan; however, VocaLink believes that the nuances of the delivery of such a project at the centre of an industry, to a challenging timescale, should be factored into decisions made by Ofgem now. To this end VocaLink has included a possible, high level implementation lifecycle as part of this consultation response. This is extrapolated from our experience in implementing the CASS successfully within a challenging deadline with significant regulatory and Government pressure.

At a high level VocaLink believes that there should be four distinct – but interconnected – work streams that will form the foundation of the implementation of a faster energy switching system. Specifically:

- **Regulatory work stream**

With Ofgem at the centre, facilitating the necessary regulatory changes; charging the DCC (or whichever body it deems appropriate) to run the project; and overseeing the project from inception to completion. The regulatory work stream will have an important role to play in

regularly cross-checking the planning and implementation of the project to ensure that benefits for the consumer consistently remain at the forefront of consideration.

- **Central hub implementation work stream**

Responsible for the design, build and testing of the central messaging system into which all participating energy companies and their agents would 'plug in'. As set out below, it is critical that this work stream is closely integrated with the energy supplier-level implementation work stream – from the design of the systems at industry and supplier level, through to testing and go-live.

- **Energy supplier-level implementation work stream**

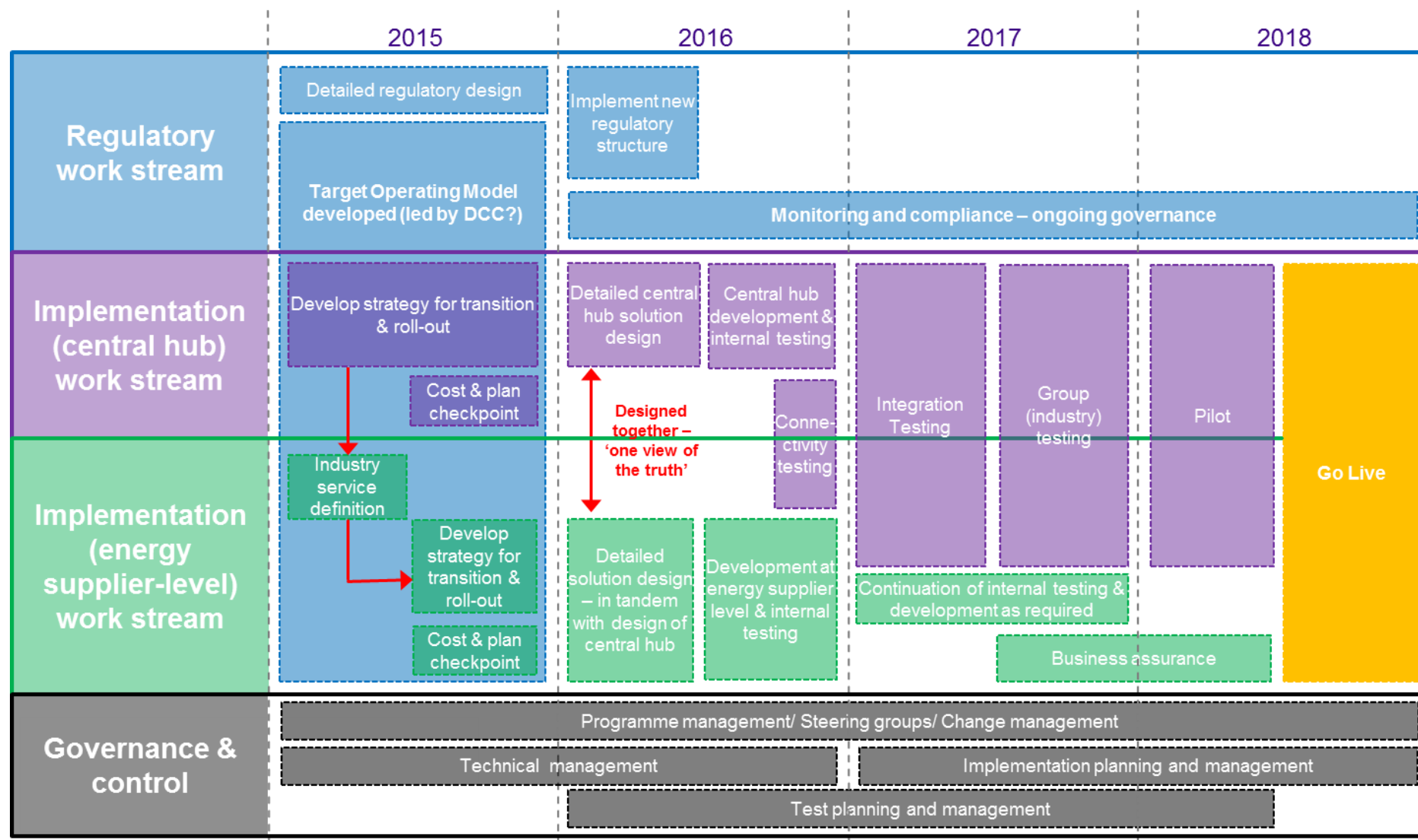
Responsible for ensuring that all participating energy suppliers and their agents implement the required changes to their systems to allow them to 'plug in' to the central messaging system.

- **Governance & control work stream**

Will play a critical role to overseeing that implementation is implemented within the stated timescales and delivers to its stated objectives. The governance and control work stream will be responsible for ensuring the implementation work streams operate in a co-ordinated manner and achieve their checkpointed objectives. Vocalink would advise that Ofgem – alongside the DCC – maintains a central role on this work stream. We would also advise that the Secretary of State for Energy & Climate Change is positioned at the top of this work stream to ensure that all parties remain committed to implementation within the stipulated timescales.

It may also be necessary to establish legal and commercial work streams, possibly separately or as part of the governance work stream, to bring in necessary expertise.

FIGURE A – POSSIBLE IMPLEMENTATION LIFECYCLE (HIGH-LEVEL)



2015

Critical steps:

- Ofgem to draft a detailed regulatory design & map timescales for completing necessary regulatory change as quickly as possible. The detailed regulatory design is the baseline for all future activity and will inform the Industry Service Definition (see below), a critical document which in turn will provide the guidance required for design and implementation of the next-day switching system
- Ofgem and the DCC should establish its governance and control model (including a number of focused steering groups) as quickly as possible, with HM Government (Secretary of State for Energy and Climate Change, and relevant DECC officials) at the very top to provide the necessary impetus for all parties, and to ensure that all elements are co-ordinated from an early stage.
- Ofgem & DCC to draft its Target Operating Model (TOM) including go-live date & checkpoint dates for each of the work streams. From the TOM, the implementation plan for the central messaging hub can be developed, and from this the Industry Service Definition (i.e. the requirements for each energy supplier and their agents) can be developed and disseminated to participating energy suppliers. This should set out checkpoints that the project needs to hit to remain on schedule.
- The Industry Service Definition would allow individual energy companies to begin planning implementation at their own level, in close co-ordination with implementation plans at a central hub level. It is essentially a single point of reference for all lower level elaboration (i.e. the work programmes at energy supplier level to 'plug in' to the central messaging system), and therefore provides the means of managing and controlling change, and the means to undertake Quality Assurance functions against all stakeholders. The trialling/piloting of the new processes needed to support next-day switching (the interactions between consumer, 'old' supplier, 'new' supplier and the central service) ahead of the Industry Service Definition being finalised would also be worth considering as this would support its adoption across the energy sector as well as by individual energy companies.
- The Secretary of State for Energy & Climate Change should mitigate the time it would otherwise take to 'mobilise' the industry by seeking commitment from the CEOs of each participating energy supplier to implement the switching system by the stipulated start date, and commitment that their companies hit the checkpoints set out by the DCC and Ofgem. It is critical that this takes place as early as possible if the switching system is to be implemented by Q3 2018 or sooner.

2016

Critical steps:

- VocaLink believes that Ofgem should seek to implement the required new regulatory structure as soon as possible – in the first half of 2016 – and this could be undertaken concurrently with the design and build of the system in order to expedite the implementation process.
- As Ofgem sets out, one of the options for enacting the regulatory changes is that the Secretary of State for Energy and Climate Change uses powers to make or direct changes necessary to centralise registration services. VocaLink believes that, given the challenging timeframe for implementation of the switching service, this would provide the optimal means to provide the foundation for design and build of the system to take place.
- The design of the system – at both central hub and energy supplier levels – should be conducted in tandem to provide a single blueprint that all parties are working towards, to limit future connection and compatibility challenges that could otherwise cause significant delays and increases in cost. VocaLink believes this should be undertaken as soon as is practicable in 2016. The design of the system would be based upon the requirements set out in the Industry Service Definition.
- The development/build of the central hub, and development at individual energy supplier level, needs to begin in the second half of 2016 to provide enough time for all energy suppliers (who will be approaching development from differing levels of compatibility/readiness) to complete the initial phases of the build, so that integration testing can begin. Internal testing should take place at both central hub and energy supplier levels in 2016 as part of this initial phase.

- Connectivity testing – i.e. ensuring that participants can physically connect to test and live environments (Multiprotocol Label Switching connections) – is a relatively simple test that should be conducted before any other testing takes place. If the connections are in place – as they will be in most cases (i.e. broadband lines) this will take a relatively short period of time. However if they are not, the lead time can be several months and can cause significant delay to other elements of the project roll out. Hence this should be conducted as early as possible in the project lifecycle.

2017

Critical steps:

- Given the scale of the required changes to energy companies' systems and that they all need to connect to a central service effectively and without issue, VocaLink believes that a significant amount of time should be allocated to testing before the go-live date. As Ofgem rightly sets out in the 'implementation issues and risks' section of its consultation, it is critically important that the consumer experiences a reliable transition to new arrangements. If there are problems with the service in the initial days after it has gone live, this could have the effect of irreparably damaging the service in the eyes of the public. If it is to achieve the objective of empowering energy consumers, they need to have confidence that it will work without issues for them. The two main areas of testing that will take up significant amounts of time include:
 - Integration testing – where suppliers connect to the central hub to ensure that they can send and receive switches and process them correctly. These tests will be carried out against specific objectives set out by the Test Planning Steering Group, in co-ordination with other governance committees.
 - Group (industry) testing – Energy suppliers will work together in groups to exchange switches, via the central hub. The purpose here is to identify where the potential inefficiencies are on an end to end basis – i.e. taking a view of the system from beginning to end; and leaving enough time to address challenges at different levels, at both energy supplier and central hub levels. This may require numerous iterations of testing, with energy suppliers working in different groupings over the duration of 2017.
- Development and internal testing will continue at the energy supplier level throughout the year, adapting systems as required and ensuring that checkpoints set by the Governance and Control groups are adhered to. 2017 is a critical year for the implementation as significant and unaddressed implementation issues with one supplier could have a knock on effect on the go-live date of the broader energy switching system.
- Energy suppliers will also begin looking at their own internal business assurance processes including the training of staff; their own internal business processes; and the development of customer collateral material to explain the switching system amongst other issues which may not be directly related to the implementation of the system, but which could negatively impact upon the effectiveness of it.
- The DCC will also have to begin implementing its own marketing plan for the switching service – if the switching service is not visible to consumers, it will limit the benefits it can deliver and therefore the point of implementing it in the first place.

2018

Critical steps:

- A strictly choreographed pilot will need to be undertaken in early 2018, with 'real-life' energy consumers, to ascertain which issues require final attention before the go-live date. The pilot will involve a limited number of switches, but will involve all energy suppliers involved in the system.
- Marketing and awareness raising of the next-day switching service amongst energy consumers to begin – with ample time given for visibility of the new service to be high by the go-live date.

Are there ways to bring forward the go-live date?

Under Ofgem's current implementation outline, Q3 of 2018 may be an ambitious target to hit, even before bringing the go-live date forward.

Until the point at which Ofgem and the DCC have decided on a detailed specification and requirements for the next day switching system and the nature of the project has been elaborated (i.e. business processes; how it maps onto existing capabilities; what needs to be built and by who; how it is to be implemented; etc...), it will be extremely difficult to identify measures that will enable the go-live date to be brought forward, with any great certainty. Once the specifics of the system have been set out in detail then an optimal delivery plan can be defined. As set out above this may well have to include parallel activities if the 2018 date (or even earlier) is to be achieved; an 80/20 delivery approach (i.e. deliver the majority of the value early on in the implementation process); reducing the scope of the system where there are potential time-consuming blockages etc. A detailed project planning exercise is required as soon as possible, to ascertain if an earlier go-live date is indeed possible, and what this might be. It would be unwise for Ofgem to commit itself to an earlier go-live date, before such an exercise has been conducted.

However, from our experience in implementing industry-wide, consumer-focused switching systems in the past, there are a number of steps that Ofgem (and the DCC) can take that would help to reduce 'frictions' and by doing so make the prospect of an earlier go-live date, more realistic:

- Government mandate to energy suppliers
A clear mandate from the Government and the Secretary of State for Energy and Climate Change at the outset of the project, and clear penalties for parties not achieving pre-set checkpoints, would be beneficial to delivering a resilient, fully functioning next-day switching system by the prescribed go-live date. Written commitment to this process from the CEOs of participating energy suppliers could be sought at an early stage.
- Replicate existing central messaging infrastructure, rather than design/build from scratch
Using the same principles and replicating the infrastructure that has successfully been implemented in the CASS would help to reduce implementation time as the principles, basic architecture and learnings from this system can be replicated and adapted (as opposed to building a system from scratch) at the centre of the energy market.
- Strong governance structure
Whether the implementation of a next-day switching service is possible or not by Q3 2018 (or earlier) will largely depend upon the effectiveness of the governance structure that is in place. A strong governance structure will ensure that checkpoints are met, work streams are co-ordinated and that implementation challenges are not only envisaged, but mitigated with as minimal delay on the project timeline as possible. The Governance structure – with the relevant Secretary of State or Minister at the very top - will also act as a motivator for multiple energy suppliers to ensure that their own systems changes are undertaken in the prescribed time period. Given that this is a project that can only go-live when every single energy-supplier and their agents are ready for it to go-live, this is a significant challenge and should not be underestimated by Ofgem.
- Early and clear guidance on requirements for energy suppliers
Given the number of participants involved in the implementation of the system, if Ofgem wants the next-day switching service to be delivered before Q3 2018, it is important that it stipulates how much earlier it wants the system delivered, as soon as possible. Once a date has been set, it will be harder to corral the industry – especially given the number of energy suppliers and their agents that will have to make their own complex systems changes to 'plug into' the central switching system – to then deliver the project in a shorter timeframe.

- **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?**

We believe that the best approach would be to construct a single set of blueprints for...

- (a) The process and requirements
- (b) Messaging
- (c) Implementation...

...that act as a single point of reference for all lower level elaboration (i.e. the work programmes at energy supplier level to 'plug in' to the central messaging system), and therefore provides the means of managing and controlling change, and the means to undertake Quality Assurance functions against all stakeholders.

- **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?**

VocaLink has no view on this issue, as long as there is a strong governance model in place that can ensure industry-wide participation; and the design of the Target Operating Model is undertaken with the right stakeholders (i.e. not just the energy companies) engaged.

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

Whilst VocaLink is not in a position to comment in detail on the suitability of an SCR to making the necessary regulatory changes to improve the switching arrangements, given the challenging timeframe Ofgem is right to evaluate how this process could be expedited. One of the options given by Ofgem is that the Secretary of State makes or directs changes. VocaLink believes that this would be the optimal approach to providing the regulatory platform for the design and build of the next-day switching service. Involving the Secretary of State would also have the added benefit of providing greater impetus for the energy suppliers to ensure their implementation effort stays on course and does not hold back the wider implementation of the system. Our experience of implementing the CASS is that Ministerial 'interest' in the project has a positive effect in ensuring that timescales are adhered to.

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

VocaLink does not agree with the proposed implementation timetable as set out by Ofgem – please see the response above, with Question 3.

APPENDIX: Three

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

VocaLink strongly believes that Option 1, Centralising Registration, is the correct approach to implementing a more reliable, next-day switching service. Generally, Ofgem sets out the key facets of this service in Appendix Three adequately and VocaLink agrees with the benefit analysis of implementing a new centralised registration service instead of upgrading existing systems.

Adapting current legacy systems and process to facilitate a next-day switching service would, in VocaLink's opinion, be a costly process that would limit the ability of DCC to monitor compliance with the process (and therefore help to uphold customers' expectations of the service & reliability);

and would not solve one of the significant obstacles to new energy suppliers entering the market – the cost of connecting bilaterally to a number of complex switching legacy systems with other suppliers.

However, there are some issues that VocaLink believes need to be explored in greater detail by Ofgem:

- Supply Point Registration Services & Near Real-Time Exchange of Messages
 VocaLink agrees with the importance that Ofgem attaches to registration systems as being at the heart of switching. Having implemented (and continuing to run) the banking industry's CASS, we can attest to the importance of data quality if the switching system is to continue to work error-free for consumers and suppliers alike; and the strength of a central messaging solution in this regard (when compared to the option of adapting current systems).

As an example of how to approach the reform of supply point registration services, VocaLink would point Ofgem towards the Industry Sort Code Directory (ISCD) and the Extended Industry Sorting Code Directory (EISCD) in the banking industry as examples of how such a central database could be organised and run from the centre. Essentially both are definitive lists of the sort code, SWIFT Bank Identifier Code (BIC), payment information, clearing information and contact details for all bank branches and sub-branches involved in the UK payment clearing system (with the addition of Faster Payments clearing information for the EISCD). Essentially the UK payments system relies upon the maintenance of these centrally held registers – run by VocaLink - for it to function. As would be expected, the information contained within the ISCD and EISCD is subject to frequent changes and to ensure that organisations have access to accurate information, VocaLink updates the ISCD and EISCD once a week and makes it available to download.

- Transfer blocking
 VocaLink would question why a third option – of removing the ability to block transfers completely – has not been put forward by Ofgem, given that the consultation sets out the intention to bring forward a review of the continued role of objections in the retail energy market (paragraph 1.41).

The three reasons for blocking a transfer are outstanding debt, an existing contract with a supplier, or to prevent an unintended switch. As Ofgem sets out in its consultation, the proportion of switches that are blocked is low (7 per cent of domestic and 25 per cent of non-domestic gas; and 14 per cent of electricity transfers). Therefore it seems counter-productive to the principles that underpin the proposed implementation of a more reliable next-day switching system (i.e. reversing who the system 'serves', from the energy suppliers to the consumers) for a process that only applies to a small proportion of consumers to be integrated into what is meant to be a more streamlined service. If the objections process was removed, and also therefore the inherent delay the requirement imposes upon all consumers who wish to switch including the vast majority whose switch will not be objected to, this would be in keeping with the trajectory and principles behind the implementation of a more reliable next-day switching system. VocaLink believes that the three reasons for blocking transfers should be seen as a moot point under a centralised next-day switching system:

- VocaLink believes that **debt resolution** should be separate from the switching process and should not hold up the process for the majority of consumers who do not have outstanding debts with their energy suppliers because the debt should not be relevant to the new supplier. The old supplier should have other debt collection tools at its disposal. Under the proposed centralised switching system it would certainly be possible to conduct the switch within the next-day parameters and then pursue debt recovery separately. To prevent switching 'tourism' (i.e. perennially switching to avoid paying tariffs) the consumer can be switched back to the original supplier simply enough, until outstanding debt issues are resolved.
- **Existing contract** – the customer should be able to assert that they wish to break their current contract and incur a penalty for doing so or if this is not an option, this

can be a rejection condition (i.e. will happen immediately) – as is the case in the Cash ISA switching system.

- **Unintended switches** – VocaLink would suggest that unintended switches are essentially a technical error that can be rectified immediately by reversing the switch – which would be within the functionality of the central-messaging system. The current objections process is partially justified because of its role in stopping unintended switches, yet there are still 55,000 per year.

Real-time processing would certainly help reduce the ‘drag’ created by objections; however removing objections from the process entirely would offer significant additional benefits, through simplification.

VocaLink therefore believes that Ofgem should bring forward its review of transfer blocking significantly, so that it can form part of the process of evaluating what a centralised next-day switching process consists of, and how it should be built. Changes to this process could form part of the detailed regulatory design and subsequent changes to the regulatory system that are required to implement switching on a broader basis.

- Transfer blocking
VocaLink would question why a third option – of removing the ability to block transfers completely – has not been put forward by Ofgem, given that the consultation sets out the intention to bring forward a review of the continued role of objections in the retail energy market (paragraph 1.41).
- Confirmation window
VocaLink agrees with Ofgem’s statement that with real-time or near real-time messaging it should be possible to significantly shorten the confirmation window in order to facilitate next-day switching.

However, VocaLink also believes that there is a significant issue that has not been addressed within the consultation paper which, unless addressed, will have a negative impact on the switching process:

- Uniform smart meter payment options
As set out in our response to Question 2, VocaLink believes that there is a strong case for Ofgem to factor in some form of central guidance to energy suppliers (as soon as possible) on how to implement payment options for smart meters. As things stand, this is being left to each energy supplier to address unilaterally and as a result it has significant potential to negate the consumer benefits that it is envisaged a next day switching service would deliver. [More detail in our response to Chapter 5, Question 2.]

APPENDIX: Four

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

N/A

- **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?**

N/A

- **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?**

VocaLink believes that Ofgem should look to remove the objections window entirely – as set out in our response to Appendix Three, Question 1.

Applicable to considerations of how to shorten the objections window – and indeed as a principle to apply to other considerations within the development of a next-day switching system – VocaLink believes that simplifying the switching process as far as possible has the potential to remove/reduce the operational costs of the new switching system; and make it less complex and costly for new entrants to participate in it i.e. to ‘plug in’ to the switching system. It is important therefore that Ofgem not only shortens the process, but simplifies it as well. This is one of the stated goals of the next-day switching system.

- **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?**

N/A

- **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?**

The case for a central metering database is sound, but benefits will only persist to 2020 when smart metering is implemented nationally. As set out in our response to Chapter 4 Questions 1 & 2, we therefore believe that it should be out of scope for the implementation of next-day energy switching.

- **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?**

Real-time processing should help the delivery of a shorter objections window, which in itself would deliver greater benefit to the consumer. However as discussed in our response to Appendix 3, Question 1, removing transfer blocking/objections as part of the switching process altogether will provide even greater benefits through the simplification of the switching process, and therefore the cost of integrating this facet into the design and implementation of the centralised registration process.

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?**

N/A

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