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OFGEM CONSULTATION ON MOVING TO RELIABLE NEXT-DAY SWITCHING

XOSERVE RESPONSE

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1. Executive Summary

- 1.1 We welcome the opportunity to contribute to this important debate about encouraging greater customer engagement in Supplier switching. Whilst we have raised a number of questions and concerns about the strength of the case for change as presented in the Consultation, we support Ofgem's ambition to bring about improvements in the ease, speed and reliability of the switching process so as to improve the customer experience.
- 1.2 We are responding in our prevailing capacity as the Transporter Agency, and as the gas industry's Central Data Services Provider, as described in Ofgem's conclusions of its review of the funding, governance and ownership of Xoserve. As the Transporter Agency, we are responsible for the provision of Agency Services that discharge the Licence and Code obligations of the principal Gas Transporters. A core component of these Agency Services (and of Central Data Services in the future) is a suite of Supply Point registration services provided for and on behalf of the principal Gas Transporters and Shippers (and independent Gas Transporters in the future). As such, we would welcome confirmation from Ofgem that:
- (a) The scope of the proposed centralised registration service under the DCC would not include the management of Change of Registered Shipper transactions (requiring the DCC to have visibility of the Gas Transporter – Registered Shipper relationship); and
 - (b) A next-day switching service would require the parallel or near-parallel updating of the identity of both the Registered Shipper and the Supplier at a Supply Point, ensuring that the Shipper / Supplier relationships do not become misaligned across different systems and processes.
- 1.3 We recognise that Ofgem has drawn on industry responses to its Change of Supplier Request for Information to assess the case for reform. We are concerned, however, that in arriving at its preferred outcome Ofgem has placed too much reliance on information characterised by low levels of confidence because of uncertainty of requirements and an absence of any formal IT systems impact assessment. Set alongside the absence in the Consultation of quantified benefits, it would appear that further, more thorough work would be required to fulfil the economic test requirements of Condition 15 of the DCC Licence.
- 1.4 The feedback from consumer surveys summarised in the Consultation demonstrates clearly the desire for a fair balance of speed and reliability. The proposal to introduce next-day switching is heavily dependent on the adoption of a very different approach to objection processes and to 'cooling off' arrangements under the Consumer Contracts

Regulation, both of which are designed to afford protection to individual customers and to the wider community. There is a risk that Ofgem's proposals do not strike an appropriate balance between reliability and speed, potentially compromising the customer experience.

- 1.5 We observe that Ofgem proposes the introduction of a new central registration system as its preferred means of harmonising processes and improving their ease and reliability, and is also asking for views on the feasibility of achieving target outcomes ahead of the 2018 timescale set out in the Consultation. Whilst a more in depth definition of business rules would be required in order to assess solution options, previous and in-flight changes to Transporter Agency systems in response to evolving industry business rules for Supply Point switching demonstrate that a new gas and electricity Supply Point registration system is not a prerequisite to the redesign of registration processes.
- 1.6 Subject to agreed new business rules, we consider that there may be an opportunity for the implementation of "three business day" switching for Gas Shippers, progressing subsequently to next-day switching, considerably earlier than Ofgem's 2018 target date, and that this could be achieved without having to invest heavily to build a new central registration system under the DCC. If, as is suggested in the Consultation, the objections processes and cooling off rules were changed, the gas central systems could accommodate three day switching from later in 2014. We would welcome the opportunity to explore this further with Ofgem.
- 1.7 Ofgem has recently concluded a review of Xoserve's funding, governance and ownership. We understand that, in arriving at its conclusion that Xoserve's role should be repositioned from Transporter Agency to Central Data Services Provider, a key driver for Ofgem is an ambition to extract greater value from the new arrangement for the benefit of consumers. We would encourage Ofgem to consider further how the legal, regulatory and contractual framework(s) for Central Data Services and Energy Registration Services might be designed so as to maximise the efficiency of industry arrangements and thereby deliver consumer savings.

2. Introduction

2.1 This document is Xoserve's response to Ofgem's consultation on moving to reliable next-day switching. We welcome the opportunity to contribute to this important debate about achieving cost effective improvements to the customer switching experience and developing a robust regulatory framework for the future positioning of registration obligations.

2.2 We are responding in our prevailing capacity as the Transporter Agency and as the gas industry's Central Data Services Provider ("CDSP"), as described in Ofgem's conclusions of its review of the funding, governance and ownership of Xoserve¹. As the Transporter Agency, we are responsible for the provision of Agency Services that discharge the Licence and Code obligations of the principal Gas Transporters ("the GTs"). A core component of these Agency Services (and of Central Data Services in the future) is a suite of Supply Point registration services that include:

- (a) The maintenance of a GT Supply Point Register that records the GT – Registered Shipper contractual relationship at each Supply Point;
- (b) The recording of transactions associated with a Change of Registered Shipper (including notification to the Registered Shipper when a new Shipper proposes to take on responsibility for a Supply Point, and enabling the Registered Shipper to object to the proposal);
- (c) The provision of Supply Point information to Shippers and other authorised parties; and
- (d) The provision of the ability to maintain a record of the identity of the Supplier at each Supply Point.

2.3 In our role as the Transporter Agency, our discussions with Shippers and Suppliers during the development of changes to switching processes to support the EU Third Energy Package 21 day switching requirement and more recently '2+3' switching have made it clear that they regard the alignment of the Supplier – Consumer and Shipper – GT relationships as commercially critical. We therefore assume that, whilst we operate Shipper Supply Point Transfer services, with the Supplier ID being 'for note', the Shipper Transfer arrangements should be capable of being operated in line with Supplier switching timescales.

¹ See <https://www.ofgem.gov.uk/ofgem-publications/86614/xoservedecisionoct13.pdf>

- 2.4 In light of the scope of Transporter Agency Supply Point services outlined above and recent feedback from Shippers and Suppliers, we would welcome confirmation from Ofgem that:
- (a) The scope of the proposed centralised registration service under the DCC would not include the management of Change of Registered Shipper transactions (requiring the DCC to have visibility of the Gas Transporter – Registered Shipper relationship); and
 - (b) A next-day switching service would require the parallel or near-parallel updating of the identity of both the Registered Shipper and the Supplier at a Supply Point, ensuring that the Shipper / Supplier relationships do not become misaligned across different systems and processes.
- 2.5 A number of significant and relevant changes to both industry arrangements and the Xoserve business are expected to be implemented prior to the proposed implementation of new arrangements in 2018. We would encourage Ofgem to take these into account when bringing forward its Consultation conclusions, as their outcomes may impact the cost and feasibility of reform options and the desirability of establishing a centralised registration service under the DCC:
- (a) Subject to regulatory approval of industry Code Modifications and associated changes to Licences, Xoserve expects to provide Supply Point services to the independent Gas Transporters (“the iGTs”) with effect from October 2015;
 - (b) Xoserve will be implementing its replacement UK LINK system in October 2015, creating an asset for the benefit of the industry with ‘2 + 3’ switching capability and designed with further enhancement in mind; and
 - (c) Ofgem has concluded that new funding and governance arrangements for the Xoserve business and the provision of its ‘central data services’ should be introduced, where the industry is working to a target implementation date of April 2016.
- 2.6 Our detailed responses to the consultation questions are set out in Sections 4 to 7 of this document, and observations in respect of the potential implications arising from the new funding and governance arrangements for Xoserve are set out in Section 3.
- 2.7 For the avoidance of doubt, we have not addressed the questions that are concerned with:

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- (a) The establishment of an electricity metering database (Chapter 4, Questions 1 and 2, and Appendix 4, Questions 4 and 5), although we note that understanding the merits of this type of arrangement would require some more thorough process and data modelling; and
 - (b) The impact of shorter switching timescales on gas balancing arrangements (Chapter 3, Question 3), as we are not subject to any exposure to balancing risk that may arise from the proposed changes.

3. Ofgem review of Xoserve funding, governance and ownership

- 3.1 The conclusions of Ofgem’s review of Xoserve funding, governance and ownership (“the FGO Review”) require the introduction of a co-operative model in which Xoserve operates as the gas industry CDSP and is funded for the provision of its central data services directly by the users or beneficiaries of those services.
- 3.2 In concluding that Xoserve should be repositioned as a ‘not for profit’ CDSP, we understand that a key driver for Ofgem is an ambition to extract greater value from the new arrangement for the benefit of consumers. We would encourage Ofgem to consider further how the legal, regulatory and contractual framework(s) for Central Data Services and Energy Registration Services might be designed so as to maximise the efficiency of industry arrangements and thereby deliver consumer savings.
- 3.3 The timeframe for implementation of the FGO Review conclusions being considered by the industry is April 2016, coterminous with the Consultation’s proposed completion of detailed regulatory design for next-day switching and centralised registration. This creates an industry risk of having to carry out two sequential sets of changes to service obligations. In order to mitigate this risk, we would recommend that the proposed SCR and the FGO Review should mutually share their outputs so that a fully co-ordinated and consistent approach to Regulatory Framework changes can be adopted. For example:
- (a) We anticipate that the programme of work required to give effect to the FGO Review conclusions is likely to include a review of the positioning of UNC service obligations, and that this review may focus on obligations appertaining to Supply Point registration, to the Change of Registered Shipper process, and to the communication of data between parties; and
 - (b) The potential inclusion of the CDSP as a party to the UNC would also be expected to create further options for the alternative positioning of these obligations.

4. The case for reform

Chapter 2

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

Key Messages

- Impediments to market engagement may extend beyond concerns over process reliability, length and complexity
- The case for change must be made against agreed industry business rules, albeit that certain rules are yet to be implemented

- 4.1 The consultation characterises the benefits of improving the switching process as those which accrue to consumers and those which encourage supply competition. We agree that potential benefits should fall into one or both of these broad categories,
- 4.2 The consultation points to three perceived shortcomings in the existing industry arrangements that are considered to be detrimental to a positive switching experience for customers, namely process reliability, length and complexity. We have commented in greater detail in Section 5 on Ofgem’s impact assessment and core proposals, but make two initial observations here:
- (a) All reform options outlined in the consultation presume that changes are indeed required to address one or more of these perceived shortcomings; and
 - (b) Ofgem’s proposals place a significant and arguably disproportionate emphasis on shortening the length of the switching period, potentially at the expense of a more reliable and less complex process.
- 4.3 In order to assist stakeholders with understanding the case for change, we would encourage Ofgem to share fully with the industry its evidence that customer concerns over process reliability, length and complexity are the major impediments to engagement with the competitive supply market, rather than other root causes such as a poor perception of price competitiveness.
- 4.4 We note that, in respect of process length, the consultation states that in excess of 80% of gas Supply Point switches between Q1 2012 and Q1 2013 took more than five weeks. Since that time, a number of changes to industry contractual rules and supporting

processes have been made or are being made that have already shortened the switching period and enable its further reduction from late 2014². For gas Supply Points, the cumulative effect of these changes will be to enable the GT-Shipper relationship to be updated in three business days. However, the desire to retain Supplier objection rights and to ensure that the customer cooling off period has concluded before amending Registered Shipper information, means that the total elapsed period for a switch includes an additional 14 day period at the ‘front end’ of the Shipper Supply Point Transfer. Any assessment of benefits of further reducing the switching timescale should be made against this baseline.

² Changes have been brought forward under UNC Modification Proposal 403 “EU Third Package: 21 day switching with flexible objection period” and UNC Modification Proposal 477 “Supply Point Registration – Facilitation of Faster Switching”

5. Options to deliver fast, reliable and cost effective switching

Chapter 3

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?

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

Appendix 3

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

Key Messages

- The Consultation does not make the case for the introduction of a next-day switching service and the centralisation of gas and electricity registration services with sufficient rigour
- There is excessive reliance on low confidence cost estimates
- Achieving early compliance with the provisions of the Consumer Contracts Regulation is a fundamental prerequisite to progressing to a next-day switching regime

5.1 We understand that:

- (a) Ofgem has identified various combinations of changes to Supply Point registration processes, to arrangements for handling objections, and to the duration of the gas confirmation window in order to achieve either next-day, two-day or five-day switching, and has recognised that responsibility for registration and switching services could continue to reside with the networks or be taken up by the DCC; and
- (b) Based on its impact assessment, Ofgem is proposing:
 - (i) The introduction of a next-day switching service option for both domestic and non-domestic consumers; and
 - (ii) The centralisation of gas and electricity registration services under the DCC.

Appraisal of impact assessment

- 5.2 We are generally satisfied that the selected evaluation criteria are consistent with Ofgem's appraisal of shortcomings in the prevailing industry arrangements, and that they acknowledge the challenges associated with achieving significant scale market reform.
- 5.3 The evaluation places considerable reliance on stakeholder responses to Ofgem's Request for Information ("RFI") issued in October 2013. Whilst we clearly cannot comment on responses provided by other stakeholders, we highlighted in our own response to the RFI the inevitable uncertainty associated with the evaluation of reform options which have not been subject to any detailed discussion of requirements or any formal assessment of systems impacts. Indeed, we recognised that we would be providing solutions in our new UK LINK system for which, at the time of preparing our response to the RFI, we had not chosen our preferred technology platform let alone undertaken any design work.
- 5.4 In the absence of a demonstrably positive business case to support the centralisation proposition, and the lack of a clear definition of Energy Registration Services, it would appear that further, more thorough work would be required to fulfil the economic test requirements of Condition 15 of the DCC Licence.
- 5.5 The consultation asserts that the centralisation of registration services on a single new system under the control of the DCC is critical to improving the reliability of the switching process, and that harmonisation and rationalisation of data flows will not be achieved through making changes to existing network systems. We agree that harmonisation of rules and processes might be expected to afford Suppliers access to service efficiency, but in this case physical service centralisation is not a prerequisite to the harmonisation of processes across gas and electricity and the shortening of switching timescales.
- 5.6 We have a strong preference that Ofgem should prioritise (through a Significant Code Review if appropriate) a comprehensive review of gas and electricity registration business rules, processes and data flows. The outputs of this review would inform the requirement for changes to the regulatory framework, including the definition and positioning of relevant industry Code and Licence obligations.
- 5.7 A vital starting point for this review would be to define exactly what is meant by 'registration' as a business activity (noting that the definition in the Consultation Glossary falls short of what would be required). Once the regulatory framework and industry business rules are defined, attention can then be given to how the obligated parties would practically discharge their responsibilities, and to the identification of the optimum systems solution. For example, it would be possible for Suppliers to access a 'common front end'

for the switching of gas and electricity Supply Points, whilst the relevant switching transactions (including, in the case of gas, the Change of Registered Shipper) are managed in the background on non-centralised systems. The industry may still arrive at the conclusion that there should be a new centralised registration system, but there would be an inherently greater degree of confidence that the optimum outcome for consumers had been identified. Specifically for the gas market, any consideration of Supplier registration processes should recognise that there would likely to be a need for corresponding changes to Shipper registration arrangements.

5.8 We agree that there is a need to strike an appropriate balance between speed and reliability of process, and note that this is reflected in the consumer survey feedback that is summarised in the Consultation, whereas Ofgem's proposal places a greater emphasis on the speed of the switching process.

5.9 The realisation of a next-day switching process is dependent upon:

- (a) The introduction of arrangements that are compliant with the requirements of the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 ("the Consumer Contracts Regulation"), although the Consultation offers no assurance that a next-day Change of Supplier and the Consumer Contracts Regulation are compatible; and
- (b) Overcoming concerns about potentially inappropriate use of the objections process, which we understand is to be the subject of a separate regulatory consultation.

Analysis of reform options

Regulatory Framework

5.10 The description of the 'Centralising Registration' option proposes that Network businesses would be released from their Licence obligation to provide registration services, that an obligation would be placed on the DCC to procure a central registration service, and that Networks would receive information from the central register notifying a change of registered Shipper / Supplier for network charging and other purposes.

5.11 We observe that, from Standard Special Condition A31 ("SSC A31") of the GT Licence and relevant UNC provisions:

- (a) The GTs have prevailing Licence obligations to:
 - (i) Establish, operate and maintain a Supply Point Information Service;

- (ii) Maintain a register of Supply Point data;
 - (iii) Amend that data to reflect a change of Supplier;
 - (iv) Provide Supply Point data to eligible parties; and
 - (v) Provide and publicise a Supply Point enquiry service;
- (b) Based on the above, there is no explicit GT Licence obligation to administer the Change of Supplier process; and
- (c) UNC Section G contains detailed provisions in respect of Supply Point registration, including GT and Shipper responsibilities to flow data to relevant parties in relation to the Change of Registered Shipper process, thereby enabling the GTs to discharge their SSC A31 Licence obligations.

5.12 It would appear therefore that, for the GTs, there may be little or no need for change at a Licence level. Dependent upon the scope of the DCC registration service, there would potentially need to be changes to the SEC and / or the UNC such that the Change of Registered Shipper could be notified to Xoserve in its capacity as Transporter Agency. We anticipate that there would be similar changes for the iGT arrangements.

5.13 It is also therefore reasonable to conclude that the GTs and iGTs will have an ongoing requirement to procure an Agency Service for the maintenance of their Supply Point Registers, including the record of the GT – Registered Shipper relationship, enabling them to deliver, inter alia, their transportation and energy balancing charging obligations.

Systems Capability

5.14 In the Consultation, the assessment of current arrangements for Supply Point registration services asserts that these are a function of systems capability. Rather, it is the case that the UK LINK suite of central systems operated by Xoserve for the GB gas industry is functionally compliant with business rules defined by the industry under the UNC governance framework, and these systems have been and can be changed to meet new industry requirements. UK LINK was successfully amended in late 2013 to deliver the 21 day switching requirements of UNC Modification Proposal 403, and work is progressing to deliver a reduction in the duration of the Confirmation Window in accordance with the requirements of UNC Modification Proposal 477 (“Mod 477”) in late 2014.

5.15 Xoserve’s Change Programme aims to deliver a replacement of the existing UK LINK system in October 2015, including the continuation of Supply Point registration and Change

of Registered Shipper services (including the reduced Confirmation Window requirements of Mod 477) for GT Supply Points and the introduction of a suite of Supply Point services for sites on iGT networks. This development will provide a centralised registration service for the whole of the GB gas market, and will offer configurable timescales for the key steps of the switching process, albeit future changes such as a reduction in or removal of the Confirmation Window would be subject to detailed analysis in order to fully assess the impacts on downstream processes.

5.16 The consultation argues that the introduction of a next-day switching service by way of amendment to existing systems is unattractive in that it will require network business to invest to support service requirements for which they are not the direct beneficiaries. We observe, however, that the introduction of a new centralised registration system under the DCC would still require networks to invest in order to ensure the continuing discharge of their obligations:

- (a) As indicated in our Regulatory Framework analysis, we would expect the GTs and iGTs (and electricity Network businesses) to have ongoing transportation and network management requirements for the maintenance of Supply Point registers, including the GT – Registered Shipper relationship, other than the DCC register; and
- (b) For gas, the introduction of a centralised registration service, incorporating next day switching, under the control of the DCC would require investment in Transporter Agency systems so as to be able to receive data from the DCC Energy Registration Service Provider or Gas Shippers to record the Change of Registered Shipper at each Supply Point, and to accommodate and communicate changes to day-ahead demand attribution and allocation processes as a result of the shortening (or removal) of the Confirmation Window.

6. Implementation approach and timescales

Chapter 5

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

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)?

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

Question 4: What do you think is the best way to run the next phase of work to develop the Target Operating Model for the new switching arrangements?

Question 5: What do you think are the advantages and disadvantages of the DCC being directly involved in the design of a Target Operating Model for the new switching arrangements, and the development of the detailed changes required?

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

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

Key Messages

- We have identified an opportunity for the early implementation of next-day switching arrangements for Gas Shippers, and without the need for investment in a centralised registration system under the DCC
- We support an approach that gives priority to the definition of industry business rules and regulatory arrangements ahead of the identification of specific solutions.

6.1 We support the principles of a focus on consumer outcomes, of making best use of industry expertise, and of identifying and managing risks, and note that the focus on consumer outcomes should be to ensure the delivery of a next-day switching arrangement that is compliant with the provisions of the Consumer Contracts Regulation, and which continues to afford protection to consumers in the event that the objections process is redesigned or removed.

- 6.2 The remaining principle proposes that implementation should take place as soon as possible, by the end of 2018 and earlier where possible, albeit without compromising reliability. We would be concerned to ensure that work is taken forward to a pace and timescale that enables the robust progression and/or completion of in-flight industry change programmes such as Smart Meter rollout, Project Nexus, Electricity Settlement Reform, EU driven market reforms and the review of Xoserve funding, governance and ownership arrangements.
- 6.3 Recognising these concerns, it may be possible to achieve earlier benefits with lesser industry effort and lower implementation risk by taking advantage of the investment in the new UK LINK system and the introduction of iGT Agency Services to move to the earlier delivery of a next-day Supply Point Transfer service between Shippers. The design of the new UK LINK system will already enable '2 + 3' switching from October 2015 and will offer configurable timescales for the key steps of the switching process. Subject to establishing arrangements that are compliant with the Consumer Contracts Regulation and achieving agreed changes to the objections process and timescales, it would appear to be possible to achieve more rapid switching for gas customers to a considerably earlier timescale, and without having to invest heavily to build a new central registration system under the DCC. As noted in Section 4.4.above, a three day switch will be technically possible from as early as late 2014.
- 6.4 With regard to implementation risks and issues, we are in broad agreement with those identified in the consultation, and note that:
- (a) The principle of managing the risk of cost over runs should be extended to include the use of techniques to ensure that declared benefits are realised, recognising that a statement of projected quantified benefits is a prerequisite to such an activity;
 - (b) The industry Change Overview Board that has been established by Xoserve and adopted by the industry is well-positioned to contribute to structured debate and consideration of potentially competing industry priorities.
- 6.5 At the highest level, the three proposed implementation stages appear to be reasonable. We do, however, have a concern that the proposed approach to the detailed regulatory design stage gives priority to the granular design of the centralised registration database and switching process ahead of defining changes to industry processes and associated changes to Codes and Licences. We strongly recommend that priorities are changed such that attention is given first to process and data flows and the regulatory framework, ensuring that all options for the positioning of obligations and incentives are properly

considered so as to achieve optimum industry efficiency and consumer benefit, and are not constrained by any prior consideration of possible IT systems solutions.

- 6.6 We support the proposed collaborative approach to detailed regulatory design and, in addition to the parties identified in the consultation, consider that Xserve both as Transporter Agency and as gas Registration Data Provider to the DCC should be an integral part of this work.
- 6.7 A Significant Code Review (“SCR”) would appear to be a suitable vehicle for managing the scale, complexity and interdependency of potentially required changes to industry Codes and Licences. The SCR should:
- (a) Include an objective to provide demonstrable evidence to satisfy the economic test of Condition 15 of the DCC Licence; and
 - (b) Clarify the extent to which a next-day switching service could or should be made available to non-domestic customers, in particular those with Supply Points with large volume offtakes that may have constraining physical and contractual arrangements.
- 6.8 Lead responsibility for the development of the Target Operating Model (“TOM”) should be identified following the definition of new process and data flows and positioning of obligations. Under Ofgem’s proposals, positioning responsibility for TOM establishment with the DCC would appear to be appropriate, provided that the conclusions of the Consultation demonstrate the benefit of centralisation of registration obligations.
- 6.9 We note the intention to determine the role of objections in the domestic and non-domestic markets by the start of 2016. If it is not possible to adhere to this timescale, consideration should be given to deferring the completion of the detailed regulatory design until such time as this matter is concluded. This approach would avoid the risk that the project progresses to the enactment of changes without a firm baseline understanding of changes to the regulatory framework and associated business rules.
- 6.10 In a similar vein, we would expect matters of compliance with the Consumer Contracts Regulation to be resolved before closing out the detailed regulatory design.
- 6.11 We note Ofgem’s plans to engage with the industry through the Smarter Markets Co-ordination Group to discuss implementation options. We would be pleased to support and participate in these discussions.

7. Detailed approach, methodology and results

Appendix 4

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

Question 2: Do you agree with our approach for approximating the direct costs for market participants of investing in upgrading existing registration systems to real-time processing and the ongoing costs of operating these systems?

Question 3: Do you agree with our assumption that the direct costs for market participants of investing in systems to shorten the objections window and the ongoing cost of operating these systems would be similar for a two-day and a one-day objections window?

Question 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?

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?

Key Messages

- Ofgem is placing significant reliance on a cost assessment that is lacking in robustness and does not provide stakeholders with sufficient transparency

7.1 We have reviewed Ofgem's approach, methodology and assumptions as set out in Appendix 4 to the Consultation, and the results of the application of the methodology as set out in Appendix 5. Whilst the assumptions would appear to be generally reasonable, we have a number of concerns about the robustness of the methodology and the transparency of its application, particularly as Ofgem has placed significant reliance on cost information in developing its reform proposal.

7.2 With regard to the robustness of the methodology, we observe that:

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- (a) It is not clear if responses to the Request for Information were of sufficient volume and quality to provide a sound basis for extrapolation to generate requested data not included in stakeholder responses;
 - (b) No information is provided on the approach to or outcome of a review of the quality of data included in stakeholder responses; and
 - (c) The sensitivity analysis applies only single sensitivities in sequence rather than compound sensitivities, and does not indicate a sensitivity threshold beyond which a reform option would no longer be considered economically viable.

7.3 With regard to the application of the methodology, we observe that:

- (a) The lack of granularity in the results presented in Appendix 5 makes it difficult to assess the accuracy of the application of the documented methodology and assumptions;
- (b) Application of the methodology is not always consistent, for example in the limited inclusion of efficiencies from the combined delivery of reform options; and
- (c) There is insufficient information presented in Appendix 5 to be able to verify that sensitivity analysis has been carried out in line with the documented methodology

7.4 With regard to costs to implement and operate a two-day or one-day objection window, we do not envisage that there would be any material difference between the two scenarios. In either scenario, we would expect industry business rules to be subject to detailed analysis so that we could fully assess the impacts (including cost implications) on gas industry central systems.

7.5 We made the observation in our original response to Ofgem's Change of Supplier Reform Request for Information that the introduction of 'real-time' processing (rather than the end of day processing of batch files) would be likely to be a primary cost driver when investing in and operating gas industry central systems. As such, it would be reasonable to expect that amending systems to implement a one-day objection window at the same time as introducing 'real-time' processing would be inherently more cost efficient than carrying out multiple sequential changes to systems.