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Dear Angelita

British Gas response to 'Moving to reliable next day switching: Consultation on target operating model'

British Gas is excited about the potential that faster switching has to promote consumer engagement and enhance competition. This is a significant programme that will require buy in from stakeholders across the industry and we are ready to play our part in helping to ensure that changes are delivered in a timely way, whilst minimising costs to consumers and not compromising on reliability.

We welcome Ofgem's commitment to carrying out impact assessments at key junctures throughout the reform programme. We also welcome Ofgem's focus on reliability throughout the Target Operating Model (TOM) document. These are two points we supported in our response to Ofgem's previous consultation on change of supplier reform and are reassured that they are within the TOM.

Code governance has been a significant blocker to industry change and has been cited by Ofgem as a barrier to entry for new suppliers. The Change of Supplier (CoS) reform programme will require significant changes to existing industry codes and it is important that responsible parties seize this one-off opportunity to improve code governance and consolidate codes to deliver more efficient and effective market arrangements and industry processes.

We support Ofgem's ambition of next day switching but welcome its stance to keep two day switching under consideration and not to make a decision between the two until costs, benefits and implementation requirements become much clearer. A slightly longer switching time may be able to deliver similar customer benefits but at significantly lower cost.

Our answers to the specific questions contained within Ofgem's letter are appended to this letter.

If you have any questions please contact Tabish Khan in the first instance on Tabish.khan@britishgas.co.uk.

Yours Sincerely

Sharon Johnson
Director of Regulatory Affairs

Appendix: Answers to questions in Ofgem's letter

Question 1 – Do you agree with the requirements set out in the TOM?

We agree with most of the proposals within the TOM and consider it be a coherent and well written plan on how to approach and deliver Change of Supplier (CoS) reform. There are a few areas where we disagree with Ofgem's proposals or wish to expand upon them, and these are highlighted below:

Objections

In previous consultations, Ofgem has suggested that to enable faster switching objections should be held centrally within the Central Registration Service (CRS). To enable this, suppliers would need to create an objections database within their own systems and synchronise this with the one on the CRS in real-time. This creates a process that risks misalignment between the two databases and may lead to erroneous objections.

Our current preferred approach is that the objections database be held on supplier systems and the CRS acts as a 'post box' in forwarding on customer acquisition requests from the prospective gaining supplier. There will need to be strict regulation on how quickly suppliers must turn around any customer leave request, but at this initial review stage we consider this to be a simpler solution that is less prone to error.

We would cite the example of cash machines as an industry where this is effective, i.e. where customers can withdraw cash and check their balance by using any cash machine not simply those of their own bank. However, the data is not held centrally and the speed of process is fast enough to meet customer needs.

We note that Ofgem is progressing with CoS reform as a separate project to its call for evidence on the ability to object for debt, on the basis that the former can be delivered with or without changes to the latter.

Industry code consolidation

Ofgem has proposed that industry code consolidation will remain out of scope for this programme. We strongly urge Ofgem to reconsider this stance and include it within the Governance work stream of the TOM.

Even under a "minimum change" option, the creation of a faster dual fuel switching process is likely to require the creation of a new retail code or significant movement of clauses between codes; it is likely that the creation of new clauses will also be needed.

For example, the Master Registration Agreement (MRA) and the Supply Point Administration Agreement (SPAA) are largely dedicated to the change of supplier process. Even under a “minimal change” option, it is therefore likely that the majority of these codes will be subsumed into a new retail code.

Under the same “minimum change” option, there will be impacts on the Uniform Network Code (UNC), the independent Gas Transporters Uniform Network Code (iGT UNC) and the Balancing and Settlement Code (BSC). However, unlike the MRA and SPAA, the majority of these codes lie outside the TOM for CoS reform.

All of these points demonstrate the extent to which CoS reform will impact on existing codes under a “minimum change” scenario; some are likely to be near-subsumed into another code(s), whereas others will be left intact to a greater extent. At the very least therefore, code consolidation should remain an important part of the Governance work stream of the TOM to avoid a situation whereby the remnant codes become difficult to govern or their purpose becomes unclear. Even if the remnant codes remain functional, it may be prudent and efficient to merge them with other codes as part of the TOM.

However, British Gas believes that Ofgem should be much more ambitious and seize this one-off opportunity to improve code governance and consolidate codes to deliver more efficient and effective market arrangements and industry processes.

British Gas believes that the current industry codes framework adequately supports incremental improvement but that it is not well-suited to delivering strategic or transformational change. The creation of a single centralised view of meter data, via the DCC, creates the opportunity for the genuine transformation of processes and governance structures that were designed in the 1990s, for a very different environment.

There are a number of critical elements to the delivery of change on scale envisaged by the Smarter Markets team. One of these is a structural review, and the overhaul of Code Governance arrangements should be included within the delivery programme for transformational change. Failure to do so risks ultimately adding time, cost, and coordination overheads, and could leave an incoherent collection of legacy codes, many of which may have lost their original purpose.

We suggest that there are three distinct threads of activity required to progress the requirements Ofgem has highlighted:

1. Build a strategic vision of how market and governance arrangements will evolve to align with policy goals;
2. Develop programme management capabilities to shape and deliver transformational change; and
3. Improve the effectiveness of industry codes.

We have a number of ideas of how this might be progressed and would welcome an opportunity to discuss with Ofgem how these thoughts could be developed further. In summary, we see benefit in unifying under a single programme more than simply the end destination. We need to address the route-map, the governance and the enduring architecture.

The most efficient process would be to make these changes while we have 'the bonnet open', as changes take place for change of supplier reform.

Use of the Smart Energy Code (SEC)

Ofgem has stated that the governance arrangements for a dual fuel switch are likely to be contained within the SEC.

We recognise that the SEC is the only dual fuel code and therefore may seem like a logical place to place switching obligations. However, even under a "minimum change" option, a separate retail code may be a more appropriate place for governance of the change of supplier process. This would ensure that any changes were run past switching process experts before a recommendation was submitted to Ofgem. It would also ensure that funding for this code would be transparent and not within costs that cover multiple codes.

We recognise that the process of moving to a centralised code might not be an easy one, but the fact that the industry is now moving towards centralised registration and same day switching must dictate that now is the right time to plan this activity. We could foresee an approach where the new code was established as a "skeleton" with new code administration and governance established, and a timeline for moving specific elements across in line with planned reforms. This is similar to the incremental approach taken with the Smart Energy Code.

Whilst dual fuel, the SEC is not necessarily the right vehicle for a retail code, given that it is largely devoted to the relationships between industry parties and the Data & Communications Company.

However, we recognise it may be easier to place the retail code elements within the governance framework of the SEC but perhaps with a separate governance arrangement for it. For example, this could involve a separate committee that controls all changes to the change of supplier aspects of the SEC but is independent of the SEC Panel. We note that there may be benefits to this arrangement as the CoS requirements in the SEC would be treated as a separate code in all but name, whilst removing the legal and procurement processes of establishing a separate code.

Ofgem has noted that *"introducing a partition in the SEC (or other such mechanisms) that separates smart metering services from registration services will introduce complexities. For example, it may be necessary to operate different arrangements for managing modifications, with different voting arrangements to accommodate the variations in user constituencies and representation on the*

various committees that oversee the SEC.” It is important that these issues are addressed if change of supplier is to sit within the SEC.

Two day versus next day switching

British Gas shares Ofgem’s ambition of next day switching but we also believe in implementing a cost-effective solution that benefits customers. Ofgem has stated that it will continue to consider a two day switching process and we urge Ofgem to continue to assess this solution as the work programme progresses.

While we note that next day switching may deliver greater consumer benefit to two day switching it may do so at a significant increase in cost. Therefore it may not be the most proportionate solution to implement.

DCC price control

Ofgem has identified that the addition of a faster switching process will require a change to the Data and Communications Company’s (DCC) price control. Ofgem has proposed that any change to the price control should be determined using an ex-ante methodology.

We believe that an ex-ante price control is not workable for the DCC, firstly because there is no similar past arrangement against which Ofgem can benchmark in any price control. Secondly, we were not expecting the DCC’s price control to move away from the ex-post arrangement during the term of their licence and we have yet to see any justification on whether ex-ante will deliver a more cost-efficient solution.

In addition, the ex-ante price control used in RIIO has introduced information asymmetry between the networks and Ofgem; the real costs and performance are not wholly transparent. We feel this imbalance in information would be particularly difficult for Ofgem to manage with the uncertainty around that exists around the detailed solution of the change of supplier reform programme. Overall, we feel that the current ex-post review is the best way for Ofgem to control and review the costs of the DCC.

We have submitted evidence to the Energy and Climate Change select committee on the high level of returns received by network operators and many of these arguments are applicable to the DCC’s price control as well.

When procurement is carried out to implement the CRS it is important that suppliers are involved in agreeing the detailed specifications before the tender is launched. As the primary users of this

service, suppliers are best placed to input into the tender and ensure a robust and effective solution is procured.

Question 2 – Is our description of the requirements sufficiently comprehensive to progress the design of our reforms during the next phase of the programme?

The TOM is written in a manner that assumes that there will be one switching process for both traditional and smart metered customers. While we agree that this is the preferred output, one of the primary goals of this reform programme must be ensuring that a two tier process is avoided. We urge Ofgem to make a “single tier” process an explicit objective; we explain what this means below.

We are committed to working with Ofgem and other responsible parties to deliver a faster switching process by 2019, in line with Ofgem’s ambition. However, we are conscious that the smart metering rollout will not be complete by this point and that several million households are likely to still have traditional meters.

If Ofgem proceeds with CoS reform on current timescales and accepting these facts, it is important from a customer perspective that both smart and traditionally metered customers are able to take advantage of a faster switching process. It is also important that the industry systems supporting this process are unified and that suppliers are not having to support and operate two different systems that are parallel running.

Ofgem issued an information request to suppliers to determine the costs of implementing two day and next day switching. These inputs were used to arrive at the £4.21 cost per customer of implementing next day switching. It is important to note that the information provided by suppliers is based on the process being applicable to all customers.

If a two-tier switching process is introduced, many of the cost savings identified in the supplier submissions would be negated and the business case for faster switching would need to be re-assessed as it would become more costly to implement.

Question 3 – Are there any additional requirements that should be captured in the TOM?

We consider there to be additional requirements that have either not featured in the TOM or have been removed from its scope. Below we set our reasoning behind why they should be included within the change of supplier reform programme.

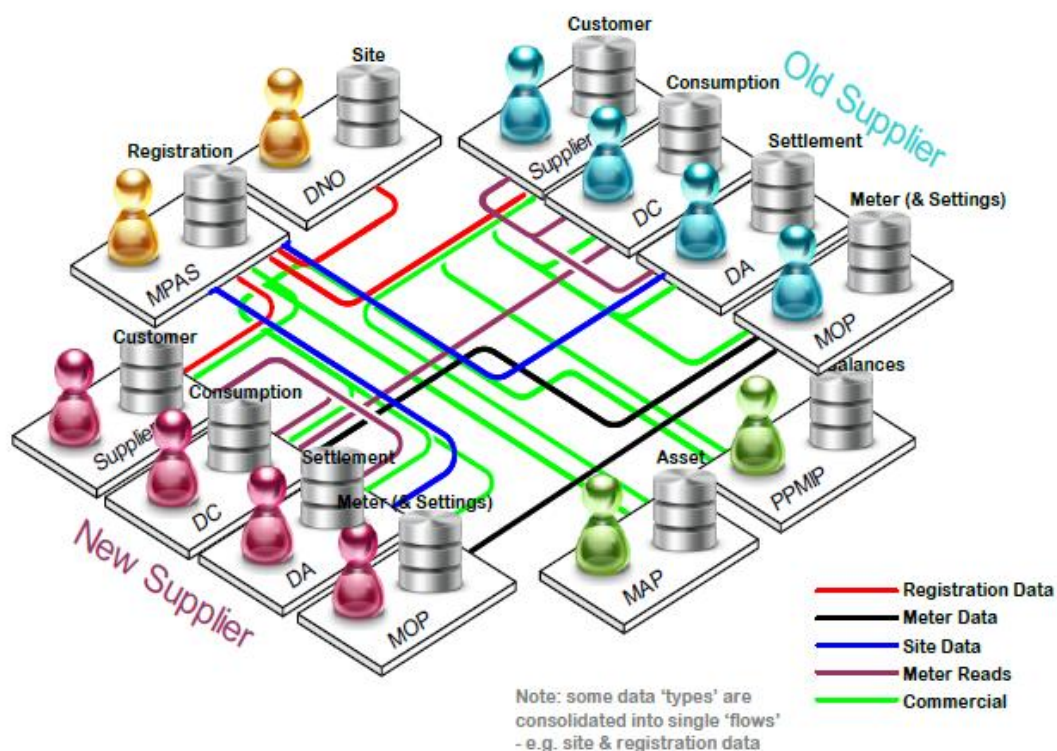
Centralisation of Supplier Agents and Metering Data

Ofgem has determined that Centralisation of supplier agents is not within scope of this work, as it is being taken forward within the settlement work stream of Smarter Markets. While we consider that

settlement reform may be a better fit for this work it would be remiss of Ofgem and industry to separate this work out entirely.

Until we have fully specified how faster switching will work, it is currently unclear whether the status quo may act as a barrier to switching reform, therefore we ask that supplier agent arrangements are kept within scope of the work even if no specific work stream is tasked with addressing the question of whether supplier agents should be centralised.

Supplier agents form part of what is colloquially known as the 'industry spaghetti' (diagram below) and change of supplier reform is a one-off opportunity to remedy this unnecessarily complex array of data flows and the governance which holds the current arrangements together.



The supplier responses to the Ofgem request for information also concluded that the centralisation of metering data would not be cost effective. However, there are advantages to centralising this data that may result in better quality data. Therefore the centralisation of further metering data within DCC should be considered while Ofgem and industry are specifying the future change of supplier model.

The most effective solution may be for some metering data to sit centrally within DCC and we shall work with industry and Ofgem to determine the optimal solution.

Lock-out periods

Ofgem has said that "aim is to only include lock-out periods where necessary and to minimise the length of any lock-out periods that might be required". The current rationale for having a lock-out

period in electricity is to “ensure that both the gaining and losing suppliers were able to manage the complexities of switch, including the appointment and de-appointment of metering agents (see below) and consumer billing”.

British Gas supports the ability for customers to switch to a product of their choosing, even if this entails regular switching. However, it may be that it is not economic for suppliers to pursue customers for a small amount of debt and customers may respond to this by switching frequently to avoid being billed. It is important that this abuse of the process is prevented as it would result in other customers covering these costs. However, we are aware that it is not clear whether this will ever become a significant issue. We are also keen that any restrictions do not act as a barrier to switching.

We are conscious that this is a fine balance to strike and will work with Ofgem and industry to find an appropriate middle ground.

Business customers and the DCC

There is no requirement for business customers to be enrolled within the DCC. The requirement only exists for domestic customers, and therefore the DCC is funded by residential suppliers only.

This decision was made as it allowed non-domestic suppliers to operate outside the DCC if they wished to and they were not required to sign up to the SEC nor build an interface with the DCC.

When Ofgem reforms the change of supplier process, based on current proposals non-domestic suppliers will be required to sign up to a retail code and will be required to build an interface with the CRS, which will be stationed within the DCC.

It is logical to assume the gateway interface between suppliers and the DCC will be used for interfacing suppliers with the CRS. As non-domestic customers will now have a sunk cost to interface with the CRS, it is likely to become more efficient to start migrating non-domestic customers into the DCC.

British Gas has always been supportive of migrating non-domestic customers into the DCC as we see this as delivering economies of scale and both reducing costs for suppliers and facilitating interoperability.

As the work on specifying the CRS continues it would be prudent to re-visit the options around whether non-domestic suppliers use the DCC and to consider mandating enrolment of all non-domestic customers into the DCC.

We recognise there will need to be exceptions, for example where customers have set up their own metering arrangements so any proposal would need to be sufficiently flexible to allow for these exceptions.

Gas shippers

It is gas shippers, rather than suppliers, who are responsible for some of the switching activities within the Uniform Network Code (UNC). It is unclear from the TOM what will become of this role within the new switching process.

We agree with Ofgem's proposal to remove shippers from the process and for it to only rely on suppliers. This will have an impact on the shipper role and will need to be explored as part of the reform programme, though we do not see it as a significant hurdle.

Radio Teleswitch

Working groups under the distribution connections use of system agreement have been exploring options for how radio teleswitched meters will be managed in the future. A change, DCP204, has been raised to require distribution network operators to notify suppliers which post codes are within load managed areas. A suggestion has been made that this information could be contained within a data item in the registration systems, but that it would be costly to implement within the current registration systems. It will be more cost efficient to implement this solution when the switching system are being overhauled, and we ask that this change is considered within the TOM.