Change of Supplier Expert Group 10 (COSEG)

16 July 2015

- We reviewed proposals to amend the scope of the Switching Programme made in responses to Feb 15 TOM consultation

- We reviewed requests for clarity on the roles and responsibilities. In particular, the role of CRS with respect to balancing and settlement and the role of gas shippers

Agenda for COSEG 10

Time	Item No.	Subject	Owner	Action
10.30	1	Welcome and introductions Review minutes and actions	Angelita Bradney	For information
10.45	2	Additional scope review	Mel Abraham	For discussion
11.15	3	Review of the consumer journey	Jeremy Adams-Strump	For discussion
12.15		**Lunch**		
12.45	4	DCC transitional funding and licence requirements	Tricia Quinn/ Andrew Wallace	For discussion
13.45	5	Ways of working in the Blueprint phase	Andrew Wallace	For discussion
14.45	6	Wrap up and AOB	Angelita Bradney	For information

2.9 – directly connected sites

For example, it was noted that some gas ~~directly connected~~ sites <u>(some connected to the transmission network and some connected to the distribution networks)</u> did not require a gas supply licence because of an exemption linked to their large consumption size<u>, and this could be a more natural boundary to the CRS scope</u>.

SWITCHING PROGRAMME SCOPE

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Priority Services Register (PSR)

Proposal

- There would be benefits for consumers if the CRS held PSR information and provided this to the new supplier on a switch

What we said in TOMv1

- We did not mention the PSR

Further detail

- The PSR is currently being reviewed to improve take-up of non-financial services and ensure equal access for vulnerable consumers

- Review includes measures to improve data recording and sharing across industry

- Delivery not linked to the Switching Programme

Questions

- Does COSEG agree that the TOM should be amended incorporate the outcome of the current PSR review?

- Are there any further PSR issues that the Switching Programme should consider?

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Energy Companies Obligation (ECO)

Proposal

- An ECO flag should be held on the CRS

What we said in TOMv1

- We did not mention ECO

Further detail

- There is not currently any method for a new supplier to find out that an old supplier has installed an ECO measure.

- There are data protection considerations here and a benefits case would need to be established on why it is needed

Questions

- What is the case for holding an ECO flag centrally and how would it be used?

- Does COSEG agree that an ECO flag should remain outside the scope of the CRS?
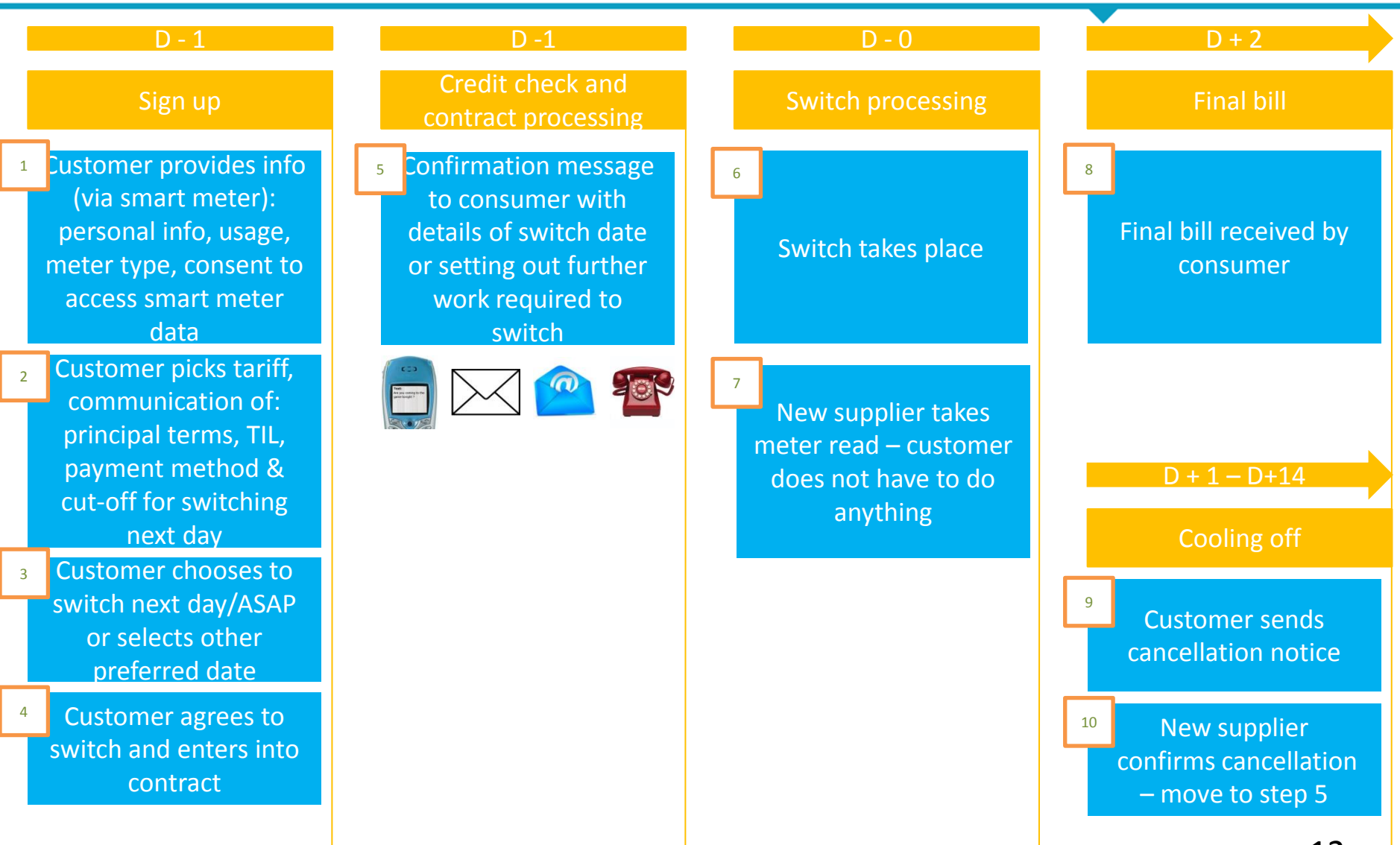
Finalisation of the CRS scope

- We are continuing to assess the scope questions identified

- The refined scope for the Switching Programme will be presented in TOMv2 publication later this year

- This will allow the Blueprint workgroups to kick off with a clear understanding of their scope

- We aim to keep a tight grip on programme scope. Any further changes must be agreed by the Programme Board
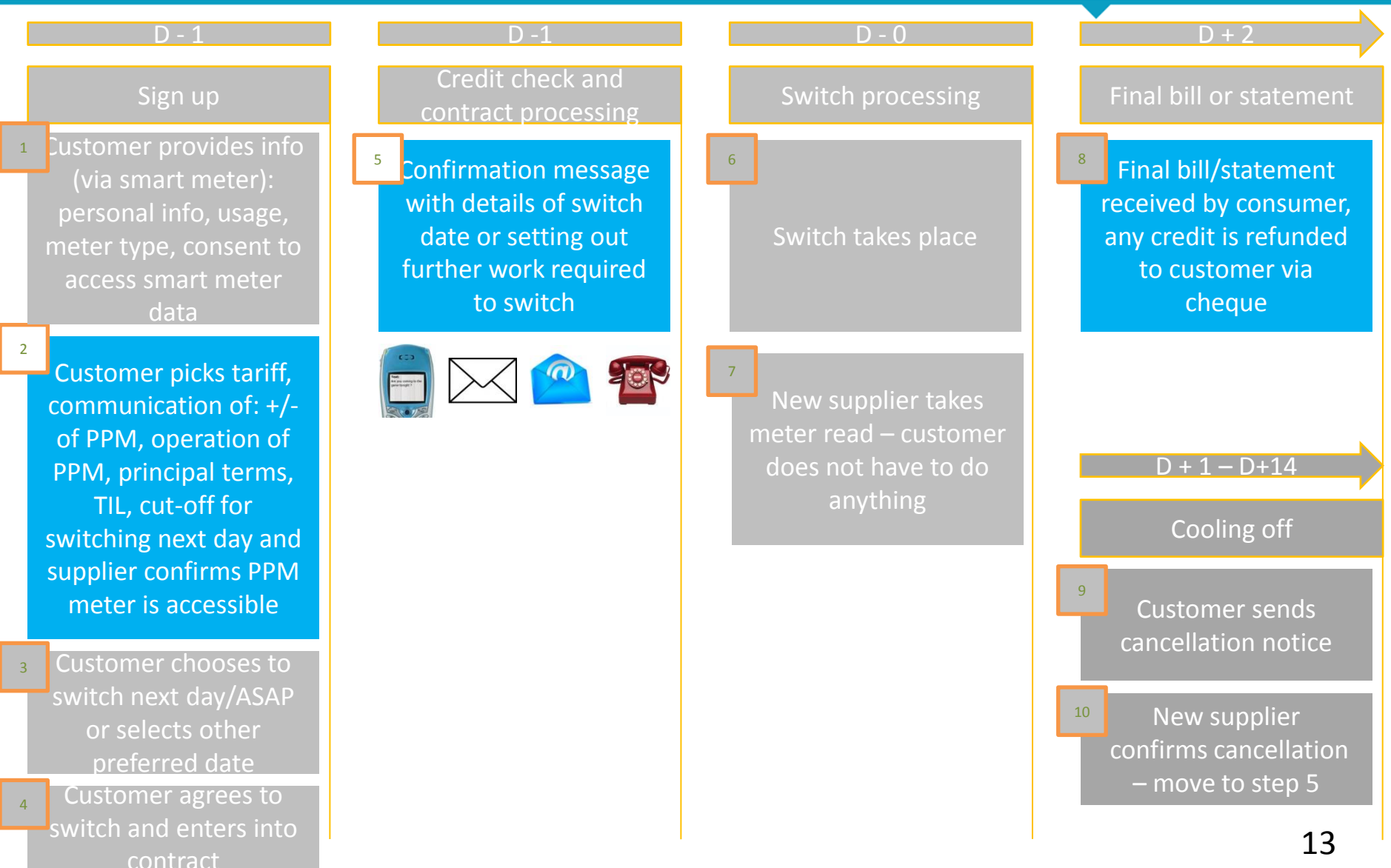
CONSUMER JOURNEY

- These slides outline the next day switching process for the following consumers:

  - Standard credit with smart meter
  - PPM with smart meter
  - Standard credit with traditional meter
  - PPM with traditional meter
  - Consumers with AMR
  - DM/HH consumers

- All journeys are set out from the customer's perspective

- Slides set out "standard" process

- As we move through the cases we have highlighted the key differences from the first case – a standard credit consumer with a smart meter

1. Simple
2. Consistent
3. Targeted – just enough communication
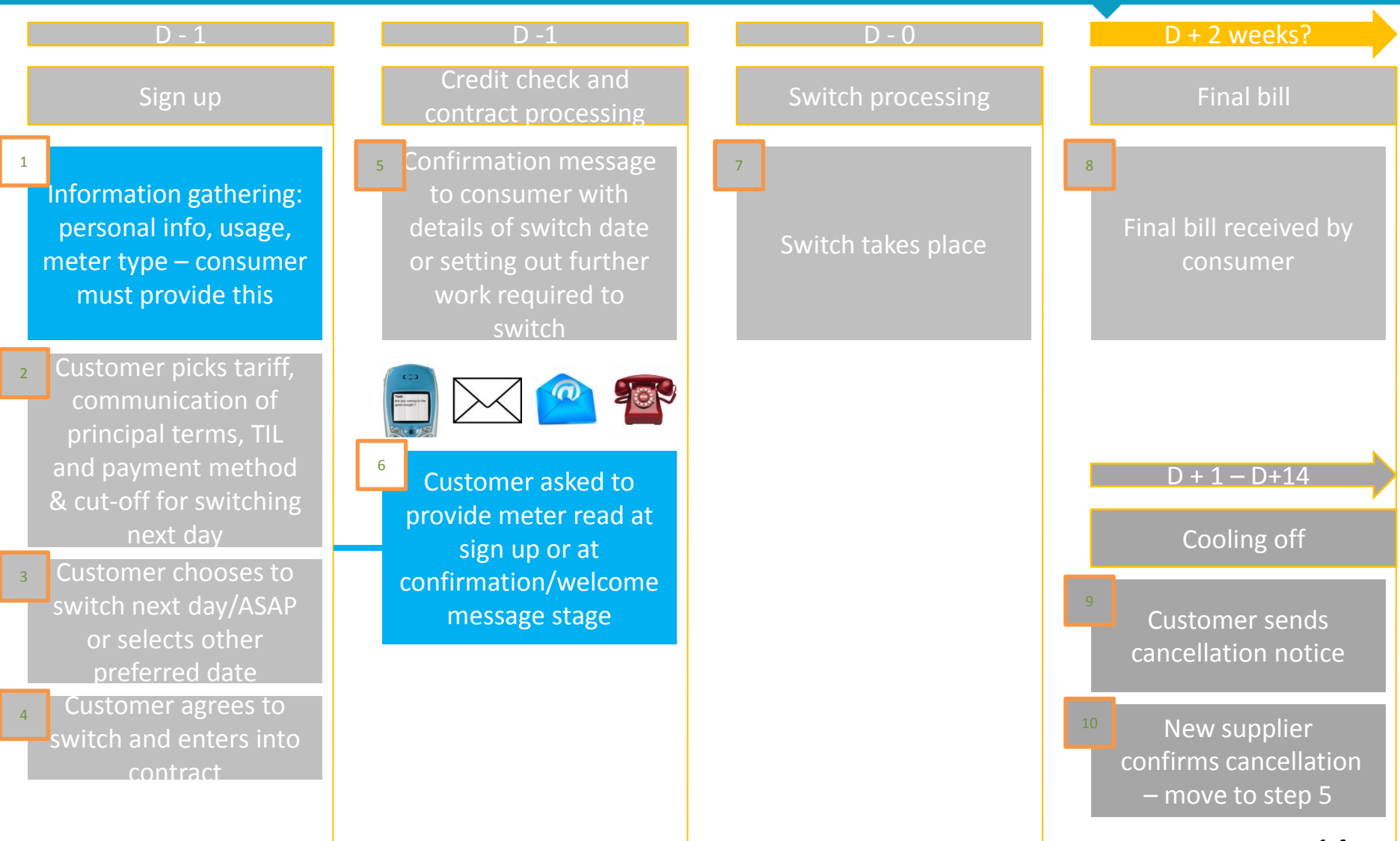4. Provides consumers with confidence
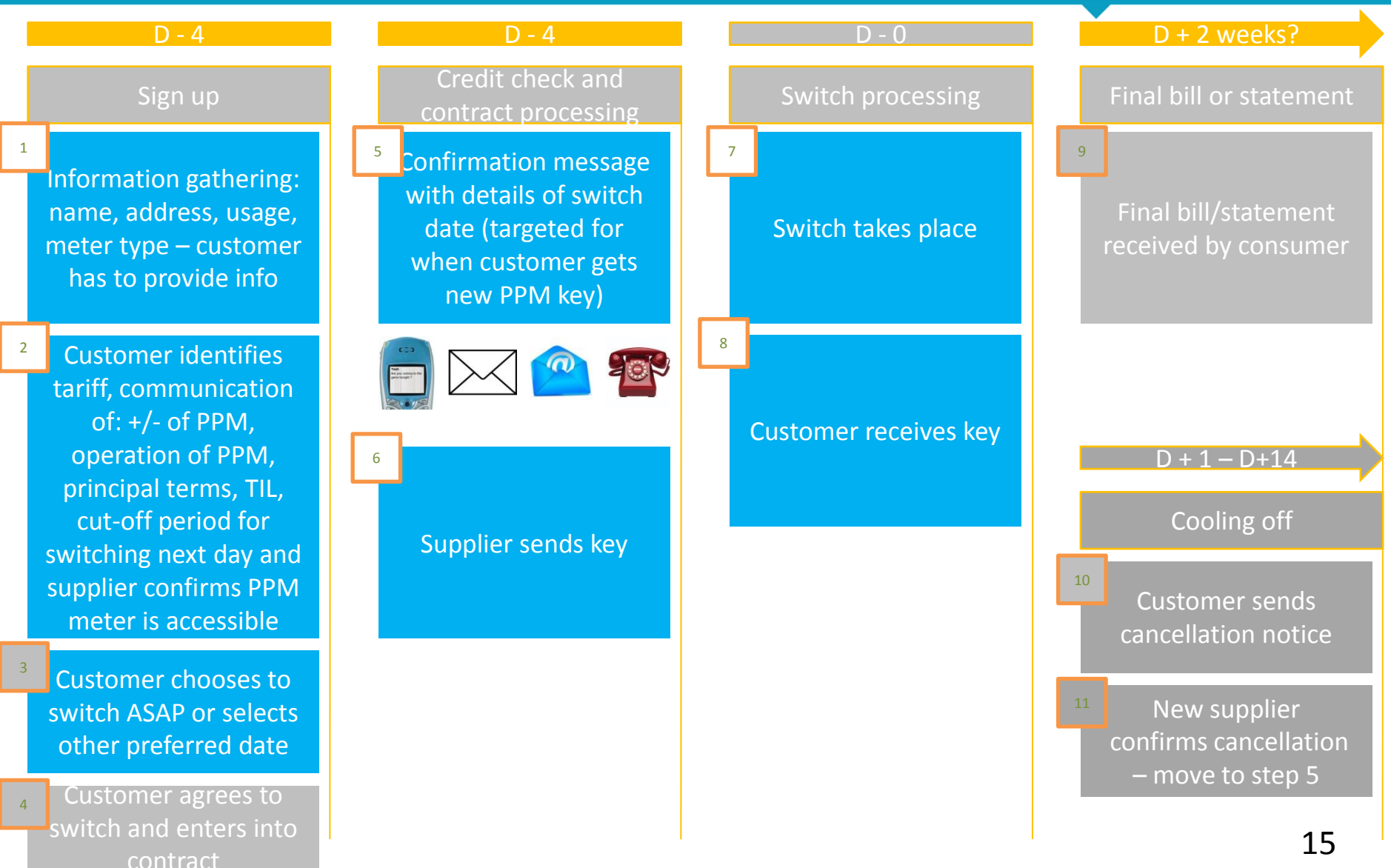
Consumers on standard credit with smart meter

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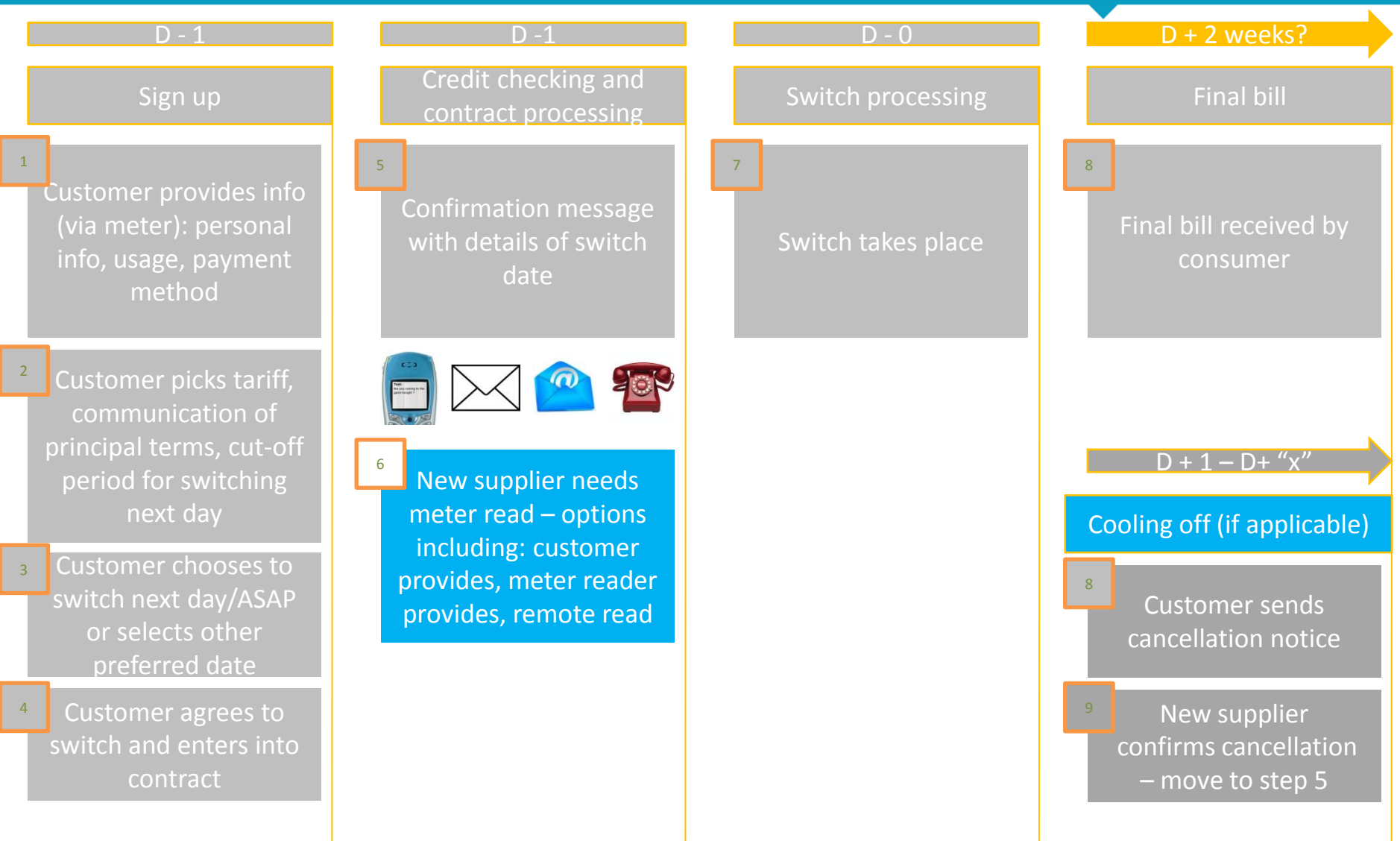for energy consumers

D - 1	D -1	D - 0	D + 2
Sign up	**Credit check and contract processing**	**Switch processing**	**Final bill**

1 Customer provides info (via smart meter): personal info, usage, meter type, consent to access smart meter data

5 Confirmation message to consumer with details of switch date or setting out further work required to switch

6 Switch takes place

8 Final bill received by consumer

2 Customer picks tariff, communication of: principal terms, TIL, payment method & cut-off for switching next day

7 New supplier takes meter read – customer does not have to do anything

D + 1 – D+14
Cooling off

3 Customer chooses to switch next day/ASAP or selects other preferred date

9 Customer sends cancellation notice

4 Customer agrees to switch and enters into contract

10 New supplier confirms cancellation – move to step 5

Consumers on PPM with smart metering

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D - 1	D -1	D - 0	D + 2
Sign up	Credit check and contract processing	Switch processing	Final bill or statement

1 Customer provides info (via smart meter): personal info, usage, meter type, consent to access smart meter data

5 Confirmation message with details of switch date or setting out further work required to switch

6 Switch takes place

8 Final bill/statement received by consumer, any credit is refunded to customer via cheque

2 Customer picks tariff, communication of: +/- of PPM, operation of PPM, principal terms, TIL, cut-off for switching next day and supplier confirms PPM meter is accessible

7 New supplier takes meter read – customer does not have to do anything

D + 1 – D+14

Cooling off

3 Customer chooses to switch next day/ASAP or selects other preferred date

9 Customer sends cancellation notice

4 Customer agrees to switch and enters into contract

10 New supplier confirms cancellation – move to step 5

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Consumers on standard credit with traditional metering

D - 1	D -1	D - 0	D + 2 weeks?
Sign up	Credit check and contract processing	Switch processing	Final bill

1 Information gathering: personal info, usage, meter type – consumer must provide this

5 Confirmation message to consumer with details of switch date or setting out further work required to switch

7 Switch takes place

8 Final bill received by consumer

2 Customer picks tariff, communication of principal terms, TIL and payment method & cut-off for switching next day

6 Customer asked to provide meter read at sign up or at confirmation/welcome message stage

D + 1 – D+14
Cooling off

3 Customer chooses to switch next day/ASAP or selects other preferred date

9 Customer sends cancellation notice

4 Customer agrees to switch and enters into contract

10 New supplier confirms cancellation – move to step 5

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Consumers on PPM with traditional metering

D - 4	D - 4	D - 0	D + 2 weeks?
Sign up	**Credit check and contract processing**	**Switch processing**	**Final bill or statement**

1 Information gathering: name, address, usage, meter type – customer has to provide info

5 Confirmation message with details of switch date (targeted for when customer gets new PPM key)

7 Switch takes place

9 Final bill/statement received by consumer

2 Customer identifies tariff, communication of: +/- of PPM, operation of PPM, principal terms, TIL, cut-off period for switching next day and supplier confirms PPM meter is accessible

6 Supplier sends key

8 Customer receives key

D + 1 – D+14

Cooling off

3 Customer chooses to switch ASAP or selects other preferred date

10 Customer sends cancellation notice

4 Customer agrees to switch and enters into contract

11 New supplier confirms cancellation – move to step 5

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D - 1	D -1	D - 0	D + 2 weeks?
Sign up	Credit checking and contract processing	Switch processing	Final bill

1 Customer provides info (via meter): personal info, usage, payment method

5 Confirmation message with details of switch date

7 Switch takes place

8 Final bill received by consumer

2 Customer picks tariff, communication of principal terms, cut-off period for switching next day

6 New supplier needs meter read – options including: customer provides, meter reader provides, remote read

D + 1 – D+ "x"

Cooling off (if applicable)

3 Customer chooses to switch next day/ASAP or selects other preferred date

8 Customer sends cancellation notice

4 Customer agrees to switch and enters into contract

9 New supplier confirms cancellation – move to step 5

D - 1	D -1	D - 0	D + 2 weeks?
Sign up	Credit checking and contract processing	Switch processing	Final bill

1 Complete contract negotiations

3 Confirmation message with details of switch date

4 Switch takes place

5 Final bill received by consumer

2 Customer picks tariff, communication of principal terms, and cut-off period for switching next day

3 Customer chooses to switch next day/ASAP or selects other preferred date

4 Customer agrees to switch and enters into contract

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Marketing route	Impact on switch speed
Consumer contacts supplier directly over phone or web	Switch occurs next day as long as contract agreed before cut-off time
Consumer goes via TPI eg price comparison website or telephone service	TPI must inform supplier which could affect cut off point for accepting next-day switch Potential follow-up conversation for PPM consumers between supplier and consumer (to ensure safe reasonable and practical to install meter)

DCC LICENCE MODS AND FUNDING

- DCC has a crucial role in developing the new registration and switching arrangements, including the procurement of a new registration service and ensuring that, once implemented, it operates economically and efficiently

- We want to ensure that the DCC is appropriately funded and has clear obligations that describe its role in supporting the Switching Programme so that do not impede it meeting its smart meter obligations

- In February, we committed to consult on changes to the DCC licence to establish its role in supporting the development of the new switching arrangements, including how this activity would be funded

We are proposing to amend the DCC licence cover:

- Design development (ie during the Blueprint Phase and DLS Phases)
- Procuring relevant service capability during the Enactment Phase
- Funding
- Other consequential amendments

We will amend the DCC licence at a later date to cover Design, Build and Test phase and live operation

- Changes to be developed during the Blueprint and DLS phases
- Licence changes proposed during the Enactment Phase

- Establish an Interim CRS Objective to:

  (a) contribute to the achievement of a full and timely design for an efficient, economical and secure Central Registration Service that would, if implemented, provide a platform for fast and reliable switching for all supply points in the GB market; and

  (b) make all relevant preparations, for the procurement of Relevant Service Capability to deliver and operate a Central Registration Service; and

  (c) procure Relevant Service Capability to deliver and operate a Central Registration Service that:

    (i) reflects the design of a Central Registration Service which has been designated by the Authority for this purpose (including any amendments to that designated design); and

    (ii) would, if executed, in all likelihood, give effect to an efficient, economical and secure Central Registration Service that would provide a platform for fast and reliable switching for all supply points in the GB market.

- Consult on DCC requirement to:
  – Document the design, and
  – Draft industry codes/SEC modifications

- Do not propose to require the DCC to document the technical specification (would form part of its procurement obligations)

- Propose requirement for DCC to comply with any Authority Direction

- Propose draft guidance on how DCC is expected to achieve the objective

- Under the current framework DCC is not able to include costs associated with the preparatory work for a Central Registration Service as part of its internal costs

- DCC is only entitled to recover costs that are part of its Allowed Revenue.

- Allowed Revenue is the amount that can be recovered through service charges for the provision of Mandatory Business Services.
  - Defined as core, elective and enabling services.

- **Preparatory work for a CRS does not fall within the definition of Mandatory Business Services at present.**

- **We think DCC should be appropriately funded for economic and efficient costs associated with its role in the transitional phase of developing a CRS**
- **We have reviewed a range of options and consequential changes to the Licence and SEC**

Options for cost recovery

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Option	Benefits	Risk	Assessment
1. No change *We do not put in place arrangements for DCC to recover costs*	• Strategic growth opportunity • Could be efficient since this is just short term arrangements	• Constrain DCC's input as its use of resources must not be material. • The right level of technical input is not provided	**May constrain quality of work**
2. Ex ante controls *2A Predetermined internal cost* *2B Registration term* *2C Uncertainty mechanisms*	• It provides certainty on costs • Provides incentive on DCC to control costs • Risk stay with DCC, who is best placed to manage them	• Uncertainty and difficult to define the role for the period • In place for a few years and enduring framework is being considered	**This should be considered for the enduring arrangements**
3. Ex post controls *Included as part of cost under current framework and subject to cost assessment*	• Provides more flexibility on role • Practical given timescales for the project and materiality of cost	• Less certainty on costs	**Provide flexibility and control of costs**
4. Full Co-operative Model *Industry control the costs of the central registration provider*	• Reduces regulatory burden	• Commercial sensitivities. • Governance frameworks in place for transition.	**Should be explored for enduring arrangements**

• **Option 3 (Ex post approach) is preferable for transitional but all options should be fully considered for enduring. We are interested in views on an ex ante control for the procurement cost**
• **We propose that DCC can recover costs it incurs in 2015/16 but in future charges**

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Authorised Business

Mandatory Business
DCC has a duty to carry out the Mandatory at all times in accordance with the licence

The provision, for and on behalf of parties to the SEC of the following business services:

- **Core Communication Services**

- **Elective Communication Services**

- **Enabling Services**

In providing a mandatory business service that has not been previously provided as such, the licensee must ensure that its provision does not materially prejudice or impair it's ability to provide other mandatory business services that it is obliged to provide

Permitted Business
DCC has the power to carry out permitted business subject to Licence Condition 6 requirements

The provision, whether for and on behalf of parties to the SEC or otherwise, of the following business services:

Value Added Services
The Authority may from time to time approve in accordance with the provisions in the Licence. These are non energy related services.

Minimal Services
These do not need to be approved by the Authority but must not exceed a turnover value of £500,000 in any regulatory year

Option	Benefits	Risk	Assessment
1. Mandatory Business Service *- Classified under existing services*	• Inclusion under the existing services would reduce the changes in the licence	• Separation between Smart and CRS may not be clear.	**Clear separation between smart metering and CRS is needed**
2. Mandatory Business Service *- New service*	• Clear separation from smart metering • More transparent • Likely to be more consistent with enduring solution	• We will need to assess the consequential drafting changes. (This is covered in slide 27)	**Provides separation and consistent with the enduring framework**
3. Permitted Service	• Clear separation from smart metering. • Clear that establishing the Smart Metering infrastructure has priority	• More consequential changes to the licence as Service charges should only be levied in respect of the provision of Mandatory Business Services	**Costs should relate to the Mandatory Business Services**

We propose Option 2 - Mandatory Business Services under a new service

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Type of change	Licence Condition (LC)	Brief description
1. Licence Conditions that require changing	Identified 5 Licence Conditions eg, LC6 Authorised business of the licensee, and LC30 Requirements for the regulatory accounts	• Need to include the new definitions for CRS • Include reference to CRS so it is clear it is a Mandatory Business Service
2. Licence Conditions where obligations will apply	Identified 17 Licence Conditions eg, LC7 General control for the Authorised Business, LC43 Arrangements for the handover of business	• Appropriate that obligations under these Licence Conditions apply to CRS • Some of the annual reporting will need to take into consideration CRS
3. Licence conditions that need to be reviewed as part of industry working groups	Identified 13 Licence Conditions eg, LC31 Reporting of quality of service information, LC 35-LC38 Price control conditions	• Obligations that should be reviewed for the enduring framework • Interactions with the development of the operational performance regime and reporting requirements

We are seeking views on the consequential changes we have identified

Type of change	SEC reference	Brief description
Sections that require changing	Section A1: Definitions Section H: Holding section on CRS Section K: Charging Methodology	• Inclusion of definitions • Fixed costs in K3.2 should be amended to make clear CRS costs will form part of this
Sections that need to be reviewed as part of industry working groups	All	• A thorough review required as part of SCR

- **We are not proposing to change the charging methodology due to the limited time the changes will be in place. We propose the costs will be part of the fixed charges**
- **We recommend that a full review of the charging methodology in the SEC takes place as part of the enduring framework**

Penal Interest Rate

Option	Benefits	Risk	Assessment
A) Do nothing (The base rate will apply to any over recoveries)	• Certainty in charges • Flexibility to respond to uncertainties	• Time lag to impose a regime in future • Risk to small Suppliers • Weak incentives	**If concerns emerged it would require a mod to make a change**
B) Power to direct any penalty (No detail of when it might be introduced or form)	• Time to consider how to set a appropriate threshold • Can Direct if needed in future	• Not transparent • Little uncertainty	**Provides balance between the strength of incentive and flexibility**
C) Report and Direct (Reporting requirement above a threshold, if unsatisfactory explanation we consult & direct penalty interest rate to apply)	• Direct when changes are needed / time for DCC to adjust • Opportunity for DCC to explain its performance • Would form part of price control reporting	• We set a materiality threshold that is either too low or too high	**Provides balance between the strength of incentive and flexibility**

Option	Benefits	Risk	Assessment
D) Power to direct the penalty interest if exceed a threshold (Once a threshold is exceeded we would consult and direct the penalty interest rate)	• Provides certainty	• Threshold is not set appropriately • Issues outside of DCC's control • More in year changes to Service Charges	**Sends a strong signal but risks with setting a threshold that could take affect in implementation**
E) Immediate effect – interest rate set (An interest rate above the base rate for over-recovery over certain limit would apply. This could be reviewed by Direction.)	• Gives DCC a of certainty on the consequences	• Potential for penalty to apply immediately and for issues that DCC was not able to anticipate. • There may be more in year changes to Service Charges	**Risks with setting threshold and interest rate**

We think Options B and C provide the best balance at this time
We welcome views on threshold and interest rate

- New obligations on the DCC to support the preparation for the SCR and new switching arrangements

- Allowing the DCC to recover the economic and efficient costs it incurs for participating in this transitional phase through the existing ex post price control framework

- Recovery of costs through the existing charging methodology

- Including the CRS as a new category of Mandatory Business Service

- Making further consequential changes to the DCC's licence – the penal interest rate

July 2015

Publish consultation

(8 weeks)

September – November 2015

Consider responses

October/November – Policy Decision Document and Statutory Consultation (4 weeks)

December 2015 – February 2016

Consider responses

February - Publish Decision Document – comes into affect 56 days later

WAYS OF WORKING

- We have published our decision on fast and reliable switching on a CRS

- Government has confirmed its commitment

- We have consulted on the high level design in the TOM. We will publish an updated version and a SCR launch statement later this year. This will set the policy and framework for delivery

- We want to build on this framework to establish how we will deliver the programme

- Today we want to test this delivery approach with you

We want your views on the characteristics that should be embedded in the Switching Programme

For example, transparency and clarity on role and responsibilities

Please come armed with your thoughts for discussion!

- Clear vision of the end state

- A transparent plan for how we will get there, including stages and products

- Clearly defined roles and responsibilities

- Transparency in decision making and on how the programme is progressing

- Opportunities for stakeholders to shape the design

- Mechanisms for all stakeholders to contribute

"Clear vision of end state, transparent plan & decision making & stakeholder input"

EDAG start

| Mobilise | Design development | Consult and IA |

TOMv2 and SCR Launch published

Workgroups start

Baseline 1

Decision (Baseline 2)

How is the design developed?

Where do we want to get to?

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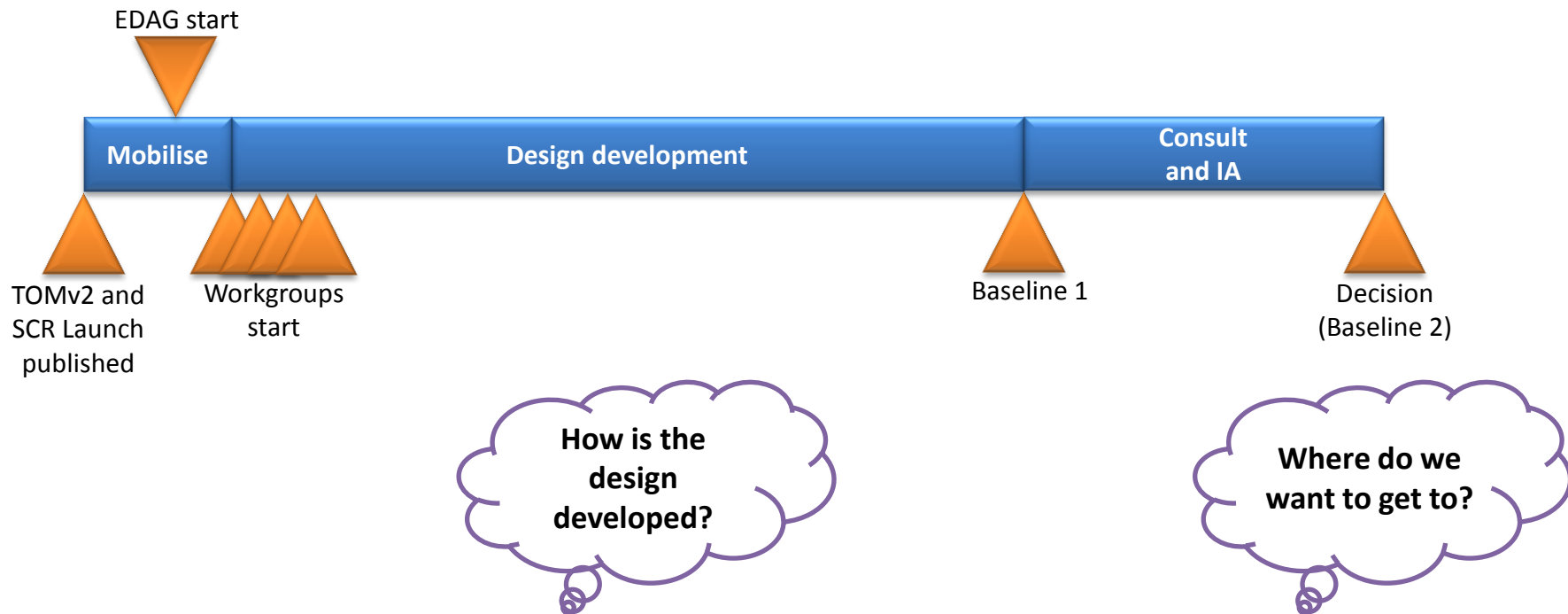
> **Do you agree that these are the right outputs for Baseline 2?**

Baseline 2

Single design for the CRS and switching arrangements
High level regulatory design
High level commercial framework setting out how costs will be recovered and CRS procured
High-level delivery strategy

Outputs should be:

- Documented with stakeholder input

- Consulted on with updated IA

- Approved by Switching Programme governance following stakeholder review

- Provide an agreed baseline for Detailed Level Specification Phase

Building on the TOM and SCR Launch, we want to develop the following to provide a common view on how we progress

Design principles

- Guide the design of the new switching arrangements
- Used across all aspect of the programme
- Developed by Programme and reviewed with EDAG
- Agreed by Ofgem Programme Board

Workstream design

- How the workstreams will be organised
- Puts the ethos of the programme into practice
- Developed by Programme and reviewed by EDAG
- Approach tailored to workstream requirements.

Work plan

- How the work of each workstream will be structured
- Include a timetable and roles and responsibilities
- Developed by (Ofgem) Workstream lead
- Reviewed by workstream and EDAG
- Governed by Programme

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To help build a common understanding of how we deliver the Blueprint phase we have identified options for how the workgroups could operate

- We suggest three key roles in the Blueprint phase
  - Design Team
  - User Group
  - Steering Group (EDAG)

- We want to test options for how these roles can fit together

- Different options could be chosen depending on the area

- We want to provide clarity on how stakeholders can engage and influence solution design and what this will mean for their organisations in terms of resource commitments

Design Team

Role and requirements

- Develops and refines design products/content

- Presents proposals to User Group and remodels based on feedback

- Presents proposals to EDAG
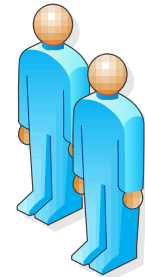
Characteristics

- Enthusiasts who contribute

- Experienced and innovative in developing policy and service design

- Good understanding of the work area

- Resource capacity for intensive design development (eg 12 months)

- Work flexibly and participate in regular discussions (potentially daily)

- Unconstrained by company position

- Work collaboratively across organisational boundaries

Role and requirements

- Review, provide guidance and develop design proposals from the Design Team

- Provide input and assurance

- Ofgem chair

User Group

Characteristics

- Provide constructive criticism

- Experienced and innovative in developing policy and service design

- Good understanding of the work area

- Resource capacity to attend regular (ie monthly) meetings and the flexibility to attend ad-hoc meetings and review ad-hoc output

- Push workstream forward in line with the TOM and design principles

- Authorised to actively participate

Role and requirements

- Provide strategic assessment across workstreams

- Review and provide guidance on products/deliverables

- Assess proposals prior to their submission to Design Authority

- Provide guidance to Ofgem Chair on which proposals sent to Design Authority

EDAG
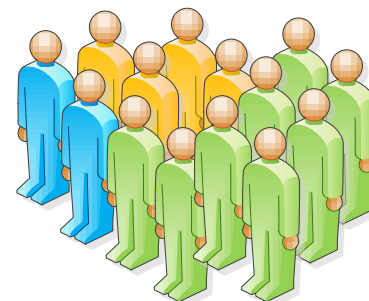
Characteristics

- Experienced and innovative in developing policy and service design

- Excellent strategic understanding of workstream areas

- Resource capacity to attend regular (ie monthly) meetings

- Authorised to actively participate and provide views

We welcome COSEG's view on the proposed model for the Business Process Design workstream

Participants:
- Ofgem
- SECAS
- DCC
- Others?

Frequency
- Regular (up to daily)

Participants:
- Ofgem
- 20 to 30 industry reps

Frequency
- Every 4 to 6 weeks

Participants:
- Ofgem
- 10 to 20 industry reps

Frequency
- Every 3 to 4 weeks
- Additional on-line review (huddle)

EDAG

EDAG

Proposals   Feedback

Proposals   Feedback

DESIGN TEAM

Proposals   Feedback

Proposals   Feedback

Proposals   Feedback

USER GROUP

USER GROUP

USER GROUP
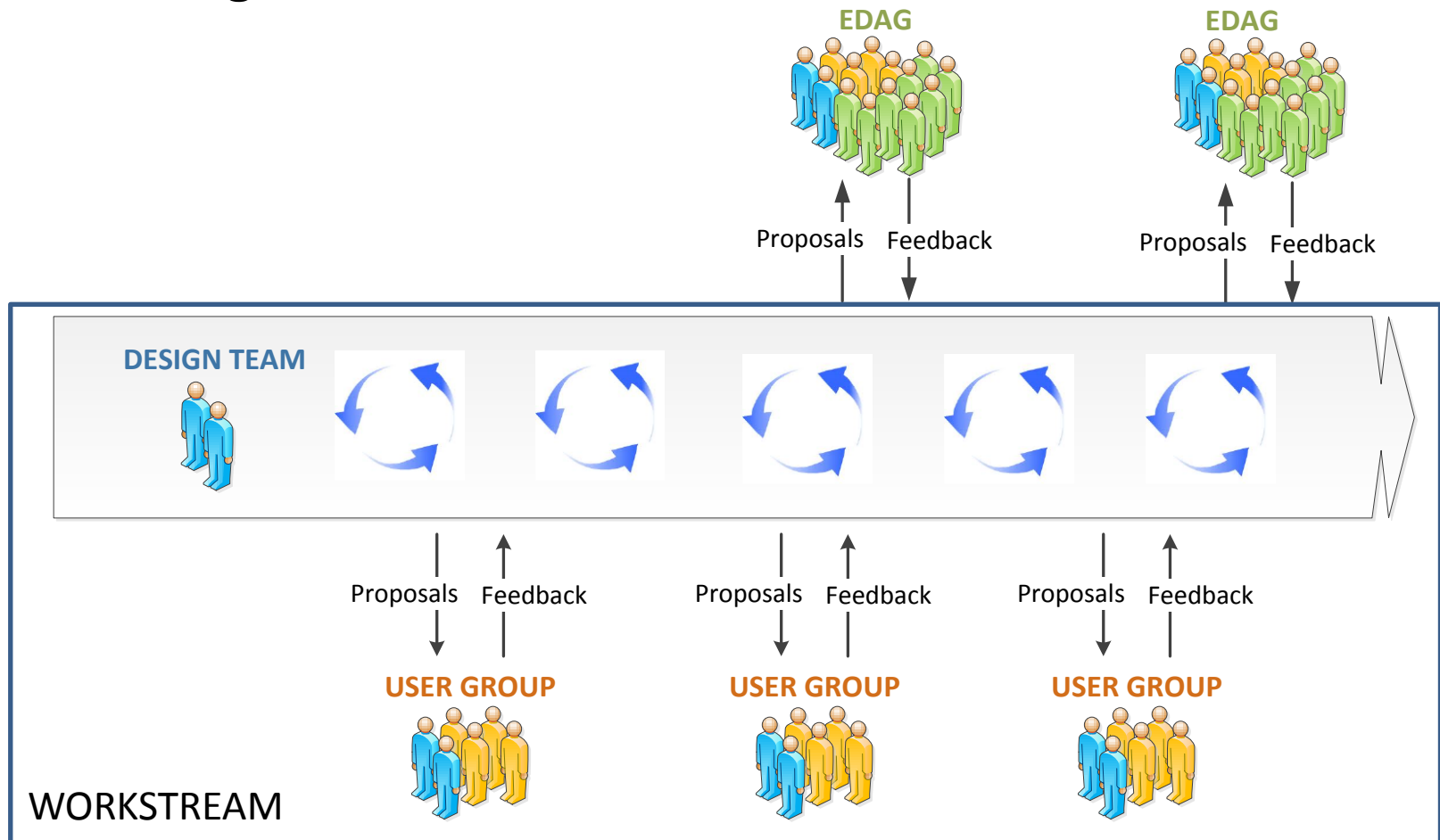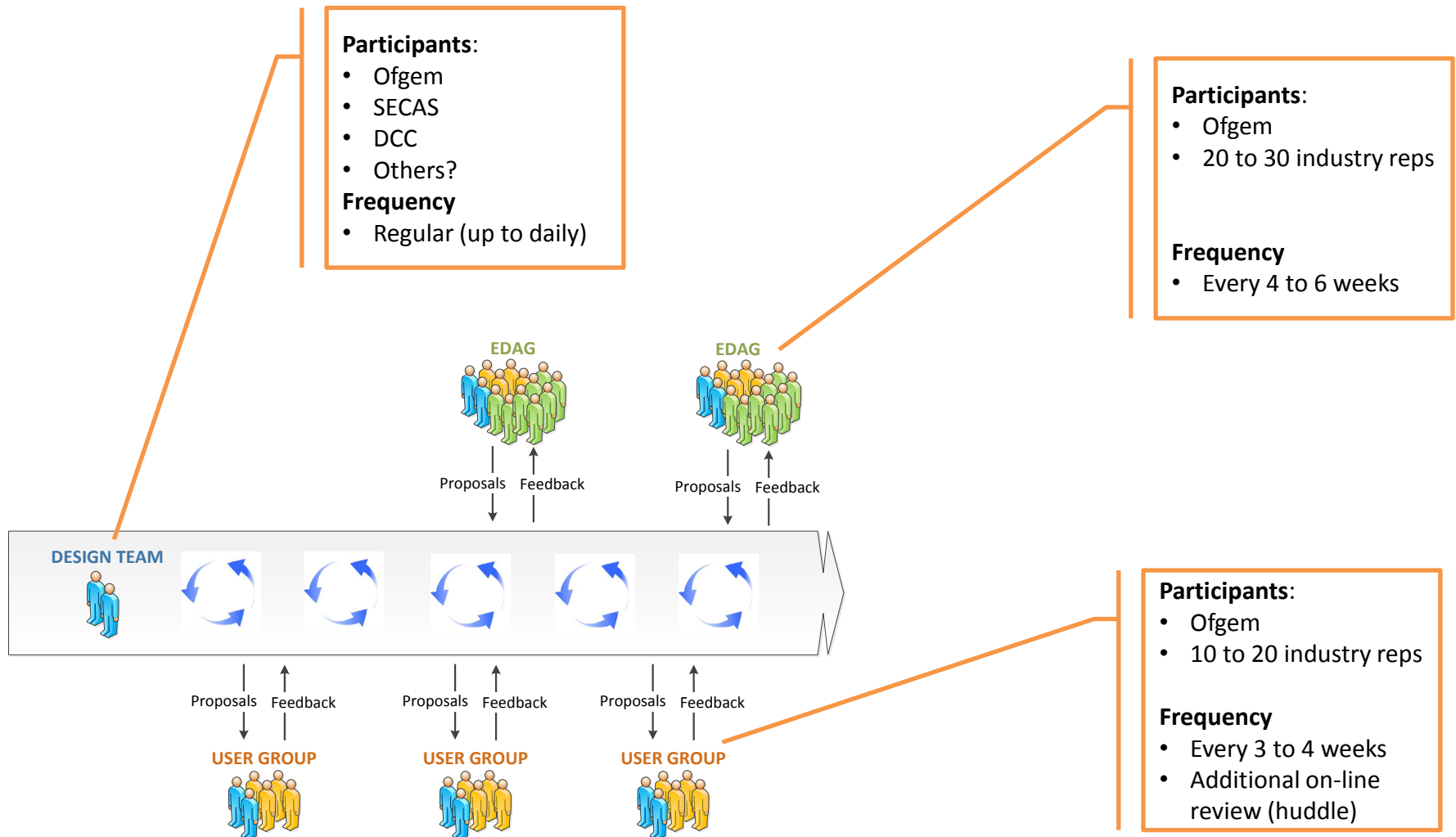
Are different approaches a better fit for the other workstreams?
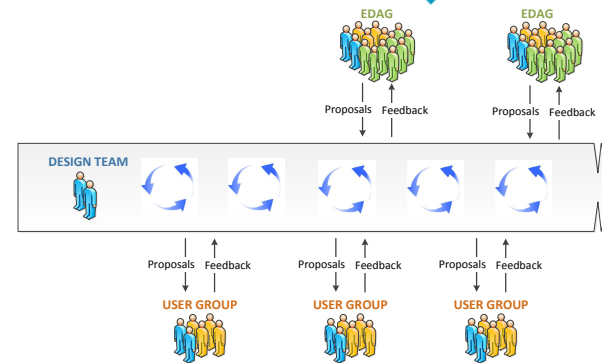
- **Variation 1:** A single organisation (eg Ofgem or a party nominated by the Ofgem Workstream Chair) could be the Design Team

- **Variation 2:** The Design Team could be integrated into the User Group so that policy is developed at User Group meetings

- **Variation 3:** The workstream is split into subgroups looking a discrete areas reporting to a common User Group

- **Variation 4**: The Design Team reports directly to EDAG and there is no User Group

- **Variation 5**: User Group is responsible for the products rather than Design Team and presents these to EDAG

… are there any other variations that we should consider?

We welcome COSEG's views on the proposed approach for other Blueprint workgroups?

Regulatory Design Workstream

- Ofgem, Code Administrators and DCC to act as developers seeking review and input from a User Group

Commercial Workstream

- Split into sub-groups with review and input from a common User Group
  - *Sub-group 1*: Focused on price control and charging methodology with Ofgem as developer
  - *Sub-group 2*: Focused on procurement with DCC as developer

Delivery Strategy Workstream

- Ofgem, DCC and experienced stakeholders to act as developers seeking review and input from a User Group

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How should we secure participation in Blueprint workstreams and EDAG

- **Option 1**: Open invitation to all interested parties to sit on groups

- **Option 2**: Expressions of interest managed by Ofgem who seek to ensure a balance of experience and skills in line with ToR and role descriptions

- **Option 3**: Ofgem invitation to attend groups

…any further options?

How stakeholders can understand progress?

- We want to use huddle as the main platform to communicate with stakeholders

- We propose to maintain a public issues log where parties can understand what issues have been considered and how they will be treated

- We will describe how this log will be used in practice

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- Welcome views on the proposed ways of working set out in this presentation

- We want to develop this further, taking into account COSEG's views

- We propose to review these arrangements with EDAG when it is convened later this year

- We also want to use the first EDAG meeting to review Design Principles, its terms of reference and the terms of reference of the Blueprint workgroups

- The workgroups will then be commissioned and the Ofgem Workgroup Leads will develop a work plan with participants

- We expect work plans to be reviewed by EDAG

AOB

- Elexon convened 1st WG meeting in June 2015 to consider whether and how **UPRNs** and **harmonising address formats** can support faster, reliable switching on a CRS.

- The WG will provide a report to us by November 2015, to include:

  o Which parties hold address format and how they are currently used.

  o Options for harmonising addressing formats (incl.alternatives UPRNs) to support CRS.

  o How UPRNs could be used and integrated within a new CRS Report outputs will inform the Business Process Design workstream.

- WG will issue **a 3 week consultation/high level impact assessment in early August 2015** – we can include COSEG in the consultation mailing distribution list.

- Consultation design will be accessible and low burden to support timely input.

Qs – Are there specific issues/questions which could be covered in the consultation? Can you recommend any high level analysis which the WG could undertake e.g. on the benefits? Are you aware of any useful, readily available evidence?

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Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.