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9th April 2015

Dear Angelita

Consultation on Moving to Reliable Next Day Switching: Target Operating Model and Delivery Approach

Thank you for the opportunity to review and respond to this consultation.

We are disappointed that Ofgem have not chosen our preferred five day switching option for the Change of Supplier (CoS) reforms, although we highlighted the fact that benefits can be identified from using this option through the Central Registration System (CRS).

We are also disappointed that no further consumer research will be carried out by Ofgem to determine the best CoS switching option for customers, even though the majority of respondents to the Reliable Next Day Switching consultation said that there isn't sufficient consumer support for Next Day Switching (NDS). The Citizens Advice Bureau also have this opinion and have stated they feel the customer benefits do not offset the costs.

In npower's response to the Reliable Next Day Switching consultation we raised concern for smaller suppliers. From reviewing their responses it seems smaller suppliers feel not enough consideration has been made to the impacts on them.

We feel Ofgem have not addressed the risks and issues with NDS that npower identified in our 2014 NDS consultation response (attachment 1). The main issues we identified still remain; such as how NDS will work for non-smart meter consumers and that NDS without objections and lock in periods will see a rise in serial switching, leading to an increase in bad debt in the market.

In regards to the NDS Target Operating Model (TOM) consultation, we have identified a number of issues with the requirements which we have detailed below. Overall, we feel that some of the requirements need further clarity while other essential elements have not been included within the scope.

Please see our response below for further details.

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

No.

Whilst the requirements for the proposed changes in the TOM are mostly set out clearly, there are a number of grey areas where there is not enough clarity.

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These are:

- With NDS would a switch take place over the weekend? E.g. if a consumer agrees the contract on a Saturday afternoon, would the switch take place on the Sunday or the Monday?
- The TOM currently states that security keys are out of scope. However, we feel they should be in scope as loading of supplier security keys on smart meters is critical to a successful switch. How will this work with NDS on pre-payment meters (PPM)? A very large section of the population use PPMs and we are at risk of isolating those consumers by not clarifying the NDS arrangements which will apply for them.
- The consultation suggests that the current licence conditions on DNOs and GTs to establish and operate registration services will be removed and new licence conditions placed on the DCC. What happens to those sites that are outside of scope of the proposals (directly connected sites, unmetered supplies etc.)? What will govern them?
- The premise of rolling out NDS is based on the fact that a large scale data cleanse will take place in the industry. However, it is not clear who will pay for this process to take place and what the estimated associated costs are.
- We do not agree with the proposed change to the 'switching speed' point. Our preference remains five day switching. As stated in our NDS consultation response, while we support the shortening of the switching process, it should not be at the expense of reliability or consumer experience. NDS will also be considerably more costly to implement. Five day switch with CRS would result in benefits for both the industry and consumers. Besides this, we have identified a number of other factors which show that NDS does not support customer preference of a reliable switch over speed. Examples of problems that will arise include the possibility of an increase in erroneous transfers, lack of clarity regarding the position of PPM and non-smart meter consumers, rise in serial switching, instances where an actual site visit might be required for vulnerable consumers etc. As such we think there will still be benefits to be realised with opting for the five day switch on the CRS rather than going ahead with NDS.
- The TOM states that suppliers still need to appoint meter operators during the CoS process. This is currently a regulatory and health and safety requirement. How will this work with NDS? At present no MOP appointment is confirmed on the same day. Providing all necessary information ahead of the SSD to allow the MOP appointment to start on SSD will become tricky when there are serial switchers. This gives rise to the likelihood of a scenario where there are a number of MOPs queued up awaiting their 'day' as MOP.
- We strongly believe that objections must remain a part of the CoS process. The solution suggested in the TOM means an objections database will have to be maintained by suppliers in 'real-time'. However, this solution is not practical for suppliers to operate effectively and will increase the costs to consumers and also pose risks to data protection and privacy for consumers. We feel that in spite of the separate CFE on objections, this should have been included as part of the TOM. Setting up the TOM without clarity on whether objections will be permissible, given the operational impacts is risky and raises confusion and queries.

Overall we feel that there needs to be further clarity, and that the TOM has left out essential elements of NDS from its scope, and therefore its requirements need to be revised. Please see our response to Q3 for further details of this.

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

No.

We feel some elements of the requirements need further clarification as detailed in this response.

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

Yes.

We do not think the TOM adequately captures in its scope all the issues/requirements which are part of NDS. Whilst overall the consultation does provide a fair summary of the proposed changes to the current switching arrangements and regulatory structure following the implementation of NDS, it does not address the following:

- In our response to the NDS consultation we said that the consultation did not appear to cover the impact of NDS on PPM consumers. Ofgem have still not clarified the process for these consumers and how NDS will work for them. As it stands, it appears that NDS cannot work for PPM consumers where a new PPM key or card will have to be sent out to the customer, particularly if the customer can switch to a new supplier the next day. Excluding the process of how NDS will work for PPMs from the scope the TOM excludes a very large portion of energy consumers. Ofgem should keep in mind that the solution must be right for all consumers.
- Again, in our response to the NDS consultation we stated that implementing NDS without a lock-in period for consumers means there will be a significant risk of a rise in serial switching as some people will inevitably do this to avoid paying bills. This will lead to an increase in bad debt in the industry which will be smeared across the consumer base meaning honest customers will end up paying higher bills. It would also likely lead to increase in debt recovery agencies being engaged resulting in a poorer consumer experience and higher industry costs. Also there is significant risk of a rise in energy thieves who switch to avoid detection or the consequences of detection. Ultimately, suppliers have the right to disconnect premises for reasons of theft, however suppliers will be unable to put this into practice once the customer has switched. This will lead to a decrease in theft detections, which is in complete contrast and may undermine the Ofgem requirement to implement a TRAS (Theft Risk Assessment Service) with the objective of increasing the number of energy theft detections. TRAS is likely to be a significant cost to suppliers and their customers. Reduced theft detections may increase unallocated energy volumes across the industry which will be smeared across the wider consumer base and the majority of customers, who do not undertake theft.
- The consultation does not address the issue of complex metering. When there is more than one meter at a site, how will NDS work if a consumer wants to switch only one of them?
- Non-smart metering consumers have not been included in the scope of the consultation. We feel the process for managing consumers who cannot or will not have smart meters installed must be in scope as many consumers will not have smart meters fitted even after the smart roll out deadline of 2020.
- The consumer research carried out by npower and the majority of other Big Six suppliers views (attachment 2), as well as the research carried out by Ofgem, does not support NDS as the most popular option for the CoS reforms. We therefore suggest that during the Blueprint stage of the TOM further research should be carried out to gain the consumer position on what they want to see.
- We believe that objections and lock-in periods should be in the scope of the NDS TOM consultation as it's a fundamental part of the switching process. It provides security for the industry and a better experience for consumers, rather than increased court actions and use of debt collection agencies.
- The TOM is looking to implement NDS, but Ofgem have said they will keep the two day switching option in mind, if the Blueprint stage suggests it will be a more viable option. But what if the Blueprint stage suggests this is not the most viable option either? Have Ofgem considered what options they will look at or how they will proceed if neither NDS or two day switching is deemed viable?
- The notification information for Load Managed Areas and the various Security Restriction Notices

should be considered. The requirement for this should be fed into the development of a central registration system.

- From a volume management perspective, the CoS TOM is likely to increase imbalance costs. If five day switching was implemented rather than NDS, then this additional risk to suppliers and therefore cost to customers would be mitigated. This would also provide greater protection for smaller suppliers.
- The TOM has overlooked the scenario of customers switching and cancelling during the 14 day cooling off period as Energy UK will be managing a project on this. This scenario is extremely complex and risky to the industry so must be in scope. It is critical to the decision on NDS and if an industry secure, customer centric solution is not identified then NDS cannot proceed.
- Impacts on Debt Assignment Protocol are also out of scope as they are mentioned in the Objections Call For Evidence however we feel the whole debt risk and objections should be in scope
- What happens (and who funds) the costs of maintaining the systems for those consumers who are out of scope for the this project? Can we have an idea of the indicative costs that the industry (and consumers) would be expected to bear?

To conclude, we do not think the TOM has effectively considered all the elements of NDS and needs to further clarify other elements, before NDS can be implemented. We feel there is insufficient evidence presented to justify choosing NDS and five day switching should be reconsidered.

Please do not hesitate to contact me if you require anything further.

Yours sincerely,

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Npower Regulation

Attached:

1. Copy of npower's response to the CoS Next Day Switching consultation, dated 11th August 2014:



Next Day
Switching Cons...

2. Analysis of the Big Six responses to the NDS consultation published by Ofgem:



NDS consultation
response comparison.