

Your ref

Our ref Energetics/Reg/20171026

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Ofgem
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Dear Rachel,

Response to the Proposals for Delivering Faster and More Reliable Switching: proposed new switching arrangements.

Thank you for your correspondence inviting comments on the consultation regarding proposals for “Delivering Faster and More Reliable Switching: proposed new switching arrangements.” The responses to each question asked in the consultation are detailed below. These responses are the views of both Energetics Gas Ltd (Independent Gas Transporter) and Energetics Electricity Ltd (Independent Distribution Network Operator).

CHAPTER TWO

Question 1: Do you agree with our assessment that RP2a provides the best value option to reform the switching arrangements for consumers and with the supporting analysis presented in this consultation and the accompanying IA?

From the solutions presented in the consultation Energetics agree that RP2a is the best value option, however reference is also made below to the Xoserve SAP solution which should be given due consideration.

RP0 the “Do Nothing Option” is not an option if a reduction to next day switching is to be achieved, the data and existing processes in gas and electricity will not allow this to happen

RP1, an enhancement of existing systems is a possibility, but it would take a major effort to align UK Link and MPRS to run parallel system. Furthermore, RP1 would not future proof any industry changes, the costs to implement the system would need to ensure that the system would be “fit for purpose” for many years to come, RP1 does not give this guarantee.

It would make sense to have a single switching system to ensure that both fuels are changed on the same dates, accessing the same postal, meter and technical details at the same time. This would lead to a recommendation for RP2a, RP2 or RP3.

RP2 “Same Day Switching”, The switching functions of UK Link and MPRS would be replaced by a single new CSS. Due to the quality of the data and the unrealistic time constraints, it is thought that introducing same day switching immediately with less time for objections could introduce a large quantity of erroneous transfers which would undermine consumer confidence in the system.

RP2a “Reliable Next Day Switching” is the same model as RP2 but more realistic switching timescales, in addition to the new CSS the ongoing data cleansing and a new single premises address database would seem to be the most robust way of progressing. Under this system ECOES and DES are still a necessity and will be held within the existing gas and electricity architectures.

RP3 “Same Day Switching with enhanced information provision” is the same as RP2 but ECOES and DES replaced by a new Market Intelligence Service (MIS), as for the reasons above the timescales, data quality and additional industry wide costs would cause too many issues and outweigh the benefits of introducing an MIS.

From the impact assessment it makes sense that if RP1 was progressed then the lower improvements to reliability would undermine the whole project, as the NPV for the other three reform options are largely similar, RP2a appears to be the less risk option due to the extra day allowed for suppliers to investigate the switch.

Energetics believe that ultimately the solution should be driven by the suppliers and although the three-month transitional period to allow a five-day switching option in order that industry can bed in this major change seems a prudent way forward, it is appreciated that a two-staged approach would be potentially a costlier scenario with double testing, double deployment and a cut over between different versions.

Energetics supports the view that the project is based on consumer confidence, this confidence can only be acquired through a reliable switch (more so than a faster one), as the confidence increases more switches will occur, this should then lead to suppliers offering better incentives and tariffs for their customers to remain loyal.

The cost difference in running RP2a against RP1 is due to running the new CSS, these costs will be outweighed by the perceived benefits of increased reliability and faster switching. RP2 and RP3 costs outweigh RP2a due to the extra supplier costs in maintaining an instant reactive objections process on a calendar day. The extra costs and complexity for RP2 and RP3 would endanger the project’s ability to deliver on time and potentially act as a barrier to entry for new market participants.

Energetics also note that Xoserve has the functionality in their SAP system to have dual fuel switching. It is believed that Large Suppliers who use SAP all use it for dual fuel. It would be wrong not to at least consider this solution from a cost / benefit perspective.

CHAPTER 3

Question 2: Do you agree that CSS should include an annulment feature which losing suppliers can use to prevent erroneous switches? Please provide evidence alongside your response. If you are a supplier, please support your answer with an estimate of the number of occasions over the past 12 months when you might have used such a feature had it been available.

It would make sense for suppliers to be able to utilise an annulment feature which would cut down on erroneous switches, however the consultation alludes to the use of the annulment feature only in the cases of a consumer instruction that they have not signed a contract with the new supplier.

As stated in the consultation, there is a risk that the annulment feature could be misused, and perhaps only by investigating the number of times this tool would be applied a determination could be made on whether it is worth the risk. In genuine cases it could be an invaluable feature and could be possibly monitored during the 3-month transition window. If the number of times the annulment is used compared with the responses from suppliers to this consultation is high, then the feature could be "switched off" or re-evaluated.

We believe more detail is needed on the parameters of how this would work in practice, if the objection window is one working day for a domestic premise, what is the practicality of the proposed supplier knowing or being informed of this concern from the customer.

Costs of this additional functionality and the added complexity of parameterising when this tool could be used would need to be studied in greater detail, ultimately however this should be a decision for the suppliers.

Question 3: Do you agree that CSS should always invite the losing supplier to raise an objection, even where the Change of Occupancy (CoO) indicator had been set by the gaining supplier? If you are a supplier, please support your answer with evidence of the number of times in the past 12 months that you have raised an objection where the Change of Tenancy (CoT) flag had been set.

It would make sense that CSS should always send a file to the incumbent (losing) supplier mirroring the current arrangements. It would be a failsafe to ensure that all the appropriate checks are in place (debt etc.) before the customer switches. This should alleviate the potential for more erroneous switching.

We would assume that not all supplier systems are the same and there may be tighter restrictions on some data items such as the Change of Occupancy field from system to system. A potential misuse of this process could lead to more erroneous switches and inconsistencies throughout the supplier constituents.

CSS should therefore always give the losing supplier the opportunity to raise an objection, regardless of whether the CoO indicator has been set by the gaining supplier, as this would prevent erroneous transfers and enable other types of objections to be submitted. The industry does also need to be mindful of the volume of erroneous objections which have caused issues in the past.

Question 4: Do you agree that use of the annulment and CoO features should be backed by a strong performance assurance regime? Please comment on ways in which such a regime could be made most effective, and back up your response with evidence.

Energetics agree that if the annulment features and CoO were to be applied then a strong assurance regime is needed. The provision of monthly or quarterly reports with the number of times each process was applied, together with sufficient detail, would give an insight into why they are being used appropriately or otherwise. If the volume of the number of times the annulment feature is used in percentage terms against a suppliers churn or portfolio looks consistently higher then this could lead to an investigation.

CHAPTER 4

Question 5: Do you agree with our proposal to require DCC to competitively procure the communications network capability required to deliver the new switching arrangements?

As the industry utilises several communication networks across a variety of companies it makes sense that the outsourcing of the work should be put to a competitive tender. If there was currently one communication network for all fuel types, then it would make sense for the industry to utilise an existing resource to lower development cost however this is not the case.

Industry would expect current network providers who maintain the DTN, IX and Gamma to submit competitive tenders and due to their existing resources, industry expertise and familiarity with market participants Energetics would expect them to be front runners for procuring the service. This should not exclude a new company from presenting a different solution, but it may be difficult to compete against an incumbent with existing infrastructure. This will however depend on the award criteria, which is put in place to facilitate the tender evaluation.

Energetics recognises and agrees that the procurement process for the network should be carried out hand in hand with the CSS solution by the same organisation. It makes sense for the DCC to competitively procure the communications network capability alongside the procurement of the CSS and any other capability requirements, thus providing a “one stop shop”. Energetics would expect Ofgem to be the decision maker in any tender process or potentially an industry panel to oversee the recommendations put forward by the DCC.

The “one stop shop” seems a more sensible approach than engaging different entities, and incurring further and / or issues with regards to compatibility of communications. With the DTN due to be re-procured in 2019/2020 it would seem prudent that this is also considered when sourcing the correct solution.

CHAPTER 5

Question 6: Do you agree with our proposal to have a three-month transition window (aiming to protect reliability) during which time suppliers have to meet additional requirements if switching in less than five working days? Please support your answer with evidence.

Energetics believes that a three-month transitional period where the supplier uses a five day switch rather than the enduring next day switching is sensible. It will allow the industry and particularly the suppliers to become familiar with the new ways of working. The interim period will also allow

additional data cleansing and flag up any serious issues. As already highlighted in the answer to Q.1, Energetics also notes that the two-phase approach would put additional costs on suppliers due to double testing and cut-over, industry will need to weigh up whether the benefits of this model will outweigh the extra costs incurred.

If the results of the five-day working switch interim period are positive, then this should give the industry confidence to move to the enduring solution, whereas poor results would allow the interim period to be extended in order that any major system or process issues are fixed. Energetics therefore believe that there should be opportunity in the plan for 3-month interim period to be extended for a period as long as necessary to allow the industry full confidence that the next day solution will be a success. Within this area of work, the industry should be guided by the suppliers but would expect that the option with the least cost and risk to the consumer to be pursued.

Energetics Gas's experience of Project Nexus highlights that after implementation, process issues still exist within both data quality and file transfers, the interim period is essential to address these problems, before embarking on a next day switch, which would see less time available to sort out problems. In the event that there is not enough time to sort out problems, then there could be reputational issues for the industry and impacts for consumers, which is a situation the industry needs to avoid.

Question 7: Do you agree with our proposal to change the requirement on speed of switching to require switches to be completed within five working days of the contract being entered into (subject to appropriate exceptions)? Please support your answer with evidence.

The consultation wishes to introduce a new maximum switching time of within five working days of the date on which the contract is entered.

The issue appears to be that not all customers wish a faster switching time for a variety of reasons including to coincide with a house move or the end of a contract. As the consultation has highlighted, the proposal wishes customers to have a choice which would allow suppliers to increase the five-day switch, the guidelines being that a supplier will be free to agree any switch date with a customer that the customer wants, within the objection window. If suppliers are granted this much leeway, then there is a possibility that the proposed license obligation of five days could be abused, and more and more switches would fall foul of this parameter.

Ofgem would need to monitor the number of switches per supplier that miss the 5 working day deadline and seek reassurance that this was at the request of the customer rather than poor supplier performance.

CHAPTER 8

Question 8: Do you agree with our proposal to create a dual fuel REC to govern the new switching processes and related energy retail arrangements?

Energetics believes a dual fuel retail energy code to replace the Master Registration Agreement and Supply Point Administration Agreement would be needed to ensure governance is held under one code. This would negate any "grey areas" which may occur across a system which could be potentially governed in a multi code environment.

The costs for cross referencing and aligning a number of codes would potentially outweigh those of creating a brand-new code governance document. Furthermore, a new document should provide clear, concise obligations on all parties.

Energetics notes that existing codes such as SPAA contains many activities and would wonder whether all existing workstreams would be absorbed into REC or would it be just those directly impacted by CSS.

Question 9: Do you agree with the proposed initial scope and ownership of the REC to be developed as part of the Switching Programme?

Energetics believes that it is sensible to develop the initial scope and ownership of the Retail Energy Code as part of the Switching Programme as the two pieces of work will feed into each other thereby creating momentum and drive which will push development and implementation to completion.

The development of REC will help shape the switching programme and ensure that both streams of work are completed in parallel. If the scope is developed under another programme or workstream there is a greater chance of ambiguous communications.

Project NEXUS proved, that governance and system implementation can run hand in hand, as was the case in developing the Data Services Contract and the iGT Arrangements Document (iGTAD) whilst the Single Supply Point system development was taking place.

Question 10: Do you agree with our proposal to modify the DCC's licence, in order to extend its obligation to include the management and support of the DBT and initial live operation of the CSS?

As the DCC has a licence obligation to procure the CSS, the common-sense approach may be to extend its obligations to other areas of activity related to delivering and maintaining the system, unless this can be done under a RECCo type arrangement. A RECCo type arrangement may provide an option for a not for profit solution.

Although DCC need to be involved in the Design, Build and Test phase of the project, Energetics would like to ensure that there can be no perceived or actual conflict of interest on the part of the DCC, where it places a contract and is able to make money depending on the quality of the work delivered by the appointed company.

If the additional obligations are not extended to fall within the bounds of the new Retail Energy Code, then there is scope that the DCC are not held accountable for underperformance. After procurement Energetics assumes that governance of REC will be held in a separate company such as RECCo similar to MRA and MRASCo, thereby ensuring that licence obligations are upheld, and standards are maintained. As outlined above this may also provide for a not for profit approach to management of the services related to REC.

Question 11: Do you agree that there should be regulatory underpinning for the transitional requirements and that this should be contained in the REC?

Energetics believes that an independent assurance company / project management resource should be engaged to facilitate timely project delivery. This was a key aspect to Project Nexus, where PWC was contracted by Ofgem to be centric to the programme and independent of all parties., with a prime objective of assuring readiness and working with industry to resolve issues. Under the switching Programme the assurance company would be able to facilitate the many workgroups which will be required to ensure that the industry would remain on track to meet milestones and deadlines. They would also, on behalf of Ofgem, be able to request in-depth information on party's readiness and plans to correspond with the development of the central system.

As Ofgem's agent the independent assurance company, could negate the need for extra licence obligations to be put in place before implementation. Industry will already be very busy preparing the Retail Energy Code with all the new obligations without having to develop and be bound by additional Licence stipulations, which will only be in force for a limited period of time.

Question 12: Do you agree that we should pursue an Ofgem-led SCR process in accordance with a revised SCR scope?

Given the scale of change and the many codes which will be impacted by an implementation of REC a significant code review led by Ofgem would seem an appropriate measure. Without this approach a lack of drive and guidance may surface thereby putting the program in danger of not meeting the required timescales.

Question 13: Do you have any comments on the indicative timetable for the development of the new governance framework?

Governance arrangements and aligning codes under Project Nexus proved to be complicated and time consuming, given the scale of the faster switching project and the number of codes to be reviewed and developed, the timescales for implementation of faster switching seem particularly tight.

Energetics appreciates the governance needs to fall in line with the procurement, design and build, testing and implementation of CSS however this demonstrates that delivery by 2020 is a massive challenge.

Referencing Project Nexus, it would be advisable for the industry to have contingency go live dates which are realistic and achievable if the primary one is not met e.g the UNC had to be redrafted for FGO arrangements on the basis that NEXUS would be in before FGO and then the whole document had to be re-written on the pre-Nexus code, as Nexus was delayed until June 2017 (post FGO).

Yours Sincerely

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