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31 July 2018

By email: switchingprogramme@ofgem.gov.uk

Dear Rachel

Switching Programme Consultation: proposed modifications to regulation and governance, 5 June 2018 (REC Consultation)

We welcome the chance to respond on this key aspect of the switching programme. As highlighted in the REC Consultation, it is essential that the new governance and regulatory arrangements are fit for their many purposes as the energy system, stakeholder uses and interactions with the system evolve.

We include below responses to those questions on which we have particular views.

Q2.1: Do you support our proposal to introduce a high level duty upon licensees to cooperate, where appropriate, in delivering the outcome of a significant Ofgem-led programme, such as a SCR?

We support this proposal in broad terms, although we do have concerns as to how wide this duty could be interpreted to be going forward.

In the case of faster switching, we believe that such a duty is the most effective way to prevent the programme moving at the pace of the slowest party. We also believe that it is critical to ensure that participants of all sizes are encouraged actively to participate in the programme, including around governance, as this will bring new voices to the industry. It is right that such participation be proportionately sized, but it is key to ensuring the programme

outputs - which in the case of the REC will frame the retail-facing aspects of the industry - have the benefit of new thinking and approaches, and experience, as far as possible.

We suggest that for wider industry cooperation mentioned in section 2.6 (a) of the consultation:

"a) the sharing of such information as reasonable, and constructive participation in industry engagement in order to undertake appropriate planning of changes to IT systems or industry standard operational processes system changes pursuant to the conclusions of a SCR;"

that (i) this duty should fall on all suppliers regardless of their size; and that (ii) parties that have engaged little or not at all with the programme on a voluntary basis should perhaps be targeted to ensure the burden of such duties is more equally borne by parties.

Whilst the wording suggests that parties should anticipate the needs of programmes and to plan co-operation resource accordingly, we believe suitable notice should be provided to ensure parties in-house programmes are not disrupted by such duties.

In terms of the specific license wording, we suggest a minor change:

"The licensee will cooperate, as necessary, with any person(s) appointed by the Authority or appointed pursuant to a Direction of the Authority, to undertake any planning, project assurance and/or coordination/systems integration in order to give full effect to the conclusions of a ["significant code project"].

"The licensee will cooperate, as necessary, with any person(s) appointed by the Authority or appointed pursuant to a Direction of the Authority, to **reasonably** undertake any planning, project assurance and/or coordination/systems integration in order to give full effect to the conclusions of a ["significant code project"].

Q2.4: Do you agree that our definition of 'large supplier' in REC v1 is suitable for ensuring an adequate level of engagement with User Entry Process Testing?

We have some concerns regarding both the definition and the principle that 'large suppliers' should enter UEPT as soon as it is made available. Regarding the definition, in the not so distant past, the industry widely used a threshold of 50,000 Registered Meter Points (**RMPs**) to determine if a supplier was large: this was subsequently increased to 250,000. More recently, we have seen a threshold of 50,000 introduced into SMiCop through a modification approved by Ofgem; a threshold of 50,000 proposed by Ofgem for data-matching to find eligible customers under any extended Safeguard Tariff; and a new Warm Home Discount threshold of 150,000 implemented by BEIS. We therefore do not consider the 250,000 RMP threshold as being consistent with these recent industry changes, nor that this threshold would assist with future-proofing given the prospect of a much larger number of entities likely to be encouraged into the market.

Regarding the principle that large suppliers should enter UEPT as soon as it is available, we

believe that there is a clear link between the length of time a supplier is engaging with UEPT and the cost incurred by that supplier. Requiring only large suppliers to enter UEPT places an even greater cost burden on those suppliers that are already funding the programme based on their market-share. We suggest that suppliers with between 50,000 and 250,000 RMP's are required to enter UEPT as soon as the system is available to identify the first tranche of defects. Once this first tranche of defects has been resolved, we propose that suppliers with greater than 250,000 customers enter UEPT and perform the next level of more detailed testing. We believe this approach would lead to a better outcome overall for the programme as the more agile new entrants would likely identify defects faster than the larger mostly incumbent suppliers.

We believe there would also be cost savings across the programme by following this approach. We also highlight that the number of supply points held by a supplier is not as relevant in this instance as the number of times a supplier is likely to exercise the CoS gain process In our view, it should be growing suppliers that should enter UEPT first rather than suppliers whose customer bases may be in decline.

Furthermore, requiring all large suppliers to enter UEPT would likely prevent smaller suppliers from entering UEPT early (due to resource constraints from the central service provider): we see this as being detrimental to the UEPT stage.

Q2.5: Do you agree that it would be appropriate to have in place interim governance arrangements prior to REC v2 coming into effect?

We agree that interim governance arrangements are appropriate.

We do have some concerns regarding the suggestion that the MRA and SPAA Executive Committee members could act as an interim REC Panel. This concern is mainly one of capacity, that is, do the members of those panels have sufficient capacity to carry out additional REC duties. This could be mitigated e.g. by addressing the capacity constraint in the short/medium term through additional membership of these committees and/or sub-committee delegation.

Q3.1: Do you agree with the proposed powers and functions of the RECCo Board, REC Panel and REC Manager, and how they would be distributed amongst them?

We support the concept that RECCo Board Members should be independent (noting the improvements to Xoserve governance since Shippers appointed four board members that were not party representatives). However, we note this could be an costly approach mainly due to the fact that Board members would likely meet monthly and may need to put in 30-40 days per year in order to be fully effective on the board of a company with so many stakeholders and such complexity. Due to the funding arrangements however, although costly, it would likely be fairer than current SPAA arrangements (for example) where larger parties mostly wholly fund the various governance bodies' member costs - both in the form of salaries and expenses.

Regarding the options proposed, we do not support Model A, as this is similar to what we have today and we believe the Panel and Board would be dominated by incumbent and the occasional mid-tier supplier representatives.

Regarding Model C, we believe that the above problem regarding dominance of larger parties could actually be worse as there would be fewer "seats" available. The independent members might then be only exposed to larger views face to face and the voice of mid-tier and smaller parties might fall away almost entirely.

Regarding Model B, we agree that this is the best option to move forward with. We would suggest however putting in place arrangements that incentivise small and mid-tier suppliers to engage more, e.g. those not able actively to participate could pay their way out of a *de facto* obligation to do so by way of additional code administration charges - a form of pay or play to help incentivise parties to engage.

Q3.4: Do you agree that there should be entry and systems testing requirements placed on new entrants, comparable to those that we expect incumbent suppliers to undergo as part of the transition to the new switching arrangements?

Our recommendation would be to take a risk-based approach regarding entry and systems testing requirements. All suppliers could be required to submit their plans for entry and systems testing: these should be independently reviewed and those suppliers that have submitted plans falling in the bottom percentile should then be subject to more rigorous requirements that might be audited on an ongoing basis if needed. We do not see the need to place such requirements (and the cost of managing those requirements) on all parties.

Q4.2: Do you agree with our proposal that the REC Code Manager should collate Switching Domain Data and make it available to Market Participants? Or do you consider that the Data Master for each element of Switching Domain Data should make it available to Market Participants?

We believe that the Data Master(s) should focus on ensuring that the quality of the data for which they are responsible for is correct and up to date. The REC Code Manager would have established contact with each of the parties that need the data, so the REC Code Manager is best placed to be responsible for its collation and distribution.

We do not think there is much value in the REC Code Manager having to share distribution information with all of the Data Masters which is what would be required to allow them to distribute instead.

Q4.3: Paragraphs 4.20-4.24 suggest that the DCC should be subject to a data quality objective and performance standards around the quality of REL Addresses. Do you have suggestions on the quality measure areas and levels quality measures will take? Do you believe that the REC Panel should have a role in setting these targets (initially and/or on a periodic basis)?

Distribution company information provision is by far the most important information that we expect the DCC to consume in performing their new address related duties. We are concerned that there remains a gap in ensuring that the network companies input correct data at source (that is, not via DCC but through direct and enforced obligations for failure to do so). We propose that a league table showing the ET % for each distribution company is published each month for network company address status: this would provide a strong signal regarding which network companies have best maintained their address databases in the past and going forward would show improvements and progress.

Network distribution companies lay the pipes and wires in the ground and into the properties concerned and their offices are located within their network areas (unlike suppliers). They have a fleet of vehicles and engineers in those geographical areas to attend site and validate information. In addition, the network distribution companies work closely with developers at new build sites and are in the best position by far to ensure plot to postal updates are performed in an accurate and timely manner. We note also that network company licence obligations include the maintenance of "unique and accurate address of each such premises so far as is reasonably practicable".

We suggest therefore that performance standard are applied to network companies, by way of support for the obligations on DCC in its role as contractor for the CSS and REC party.

The work proposed by the Address Management Schedule will ultimately require supplier parties to fund a large proportion of this work. Whilst we believe this work should have already been undertaken by network companies in the past, we understand now that this work needs to be drawn into the programme. We would however suggest that the cost of this work be carved out and levied on the network companies. This seems appropriate as they should benefit from cost reductions to some extent as a result of these obligations being taken over by DCC.

Q4.4: Paragraph 4.25 outlines that the REL Address data quality indicator is currently intended to be an internal measure for the CSS. Do you believe there is value in making this available to other market participants? If so, please provide your rationale for this and outline which market participants should have access.

We believe there is value in making the address quality indicator available to other market participants especially network distribution companies and suppliers. Depending on the proportion of REL addresses flagged, First Utility would consider conducting additional checks (perhaps manual checks) for addresses indicated as being poor before attempting to register a supply point in order to reduce ET's. We would however have some concern that in performing the additional check, the registration could be delayed. This could cause difficulties to the extent that any automatic compensation is applied to a delayed switch.[1] The critical issue for us is that data issues are resolved, which is needed to underpin the reliability of faster switching.

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[1] On this we would therefore suggest that any compensation scheme for delayed switching should take into account the address quality indicator.

Q4.5: Paragraph 4.25. suggests that the DCC should set out the methodology it will apply to meet the REL Address data performance standards on an annual basis. Do you agree that it would be beneficial to make this methodology publicly available?

We agree that the methodology to be applied by DCC to meet the REL Address data performance standards should be made publicly available. It is critical that failure to meet the standards should be sanctioned, and in such a way that correction(s) are made and lessons learned - penalties of themselves may not achieve the meeting of the performance standards.

Question 5.1: Do you agree with the role we have set out for DCC during the DBT phase and steady state operations? If not, why not?

Whilst we do appreciate the practicalities around DCC being in-role, we are concerned that these aspects of the DCC role were not competed and therefore DCC's approach, including as to costs and margin, was not subject to market testing. The practicalities include that pending RECCo getting up and running, an entity is required to secure provision of the CSS and manage the delivery against specification and its subsequent operation. Accountability is key, both via the DCC charge controls and through the REC.

We suggest changing the following : "Delivery and provision of an economic, efficient robust and secure switching service", to: "On-time delivery and provision of an economic, efficient, robust, secure, compliant and complete switching service".

We look forward to engaging with you more generally on the development of these new arrangements.

Yours sincerely

<not signed>

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