centrica

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Sent by email only to: switchingprogramme@ofgem.gov.uk

Dear Rachel.

Switching Programme Consultation on Proposed modifications to regulation and governance

We support the introduction of a new Retail Energy Code (REC) to deliver dual fuel governance for the new switching arrangements and welcome the opportunity to comment on the proposals. Our responses to the consultation questions are detailed within the attached Appendix.

Duty to Cooperate

Whilst we support the intent of the duty to cooperate, we encourage Ofgem to ensure that its implementation does not result in overly onerous obligations to submit to oversight. We consider that a risk-based approach to oversight would be appropriate, commensurate with the level of risk that a single licensee or organisation poses to the overall delivery path of the programme. It is important for Ofgem to provide clarity and opportunity for further consultation on how it will designate change programmes as meeting the "significant code project" benchmark.

REC Governance

We agree in principle with the role of a REC Manager. It will be important for the REC Manager to drive efficiencies within the REC and wider governance arrangements and that it does not manifest itself into an overly expensive service offering. We do not support the introduction of a model (Model B) that would establish a REC Board that consists solely of non-executive members appointed from outside of the energy industry. Proposed Model B is not the only approach that will ensure that the impacts to customers are fully considered on an ongoing basis. We would prefer to see a model that is based upon the hybrid 'Model C' option described within the consultation.

REC Content

We agree with the proposed minimum content for REC v2 and are not aware of any other additional content that should be considered for inclusion at this stage.

The Significant Code Review (SCR) Process

We agree with the proposed changes to the Switching SCR. It is important to learn from previous large-scale industry implementations such as Project Nexus and ensure that the overarching arrangements in place to deliver the complexity of the CSS and REC are robust. We do not believe that there are any further changes required to the scope of the SCR and support the drafting and circulation of all SCR related code changes at the earliest opportunity.

We would be happy to discuss our response and thoughts with you in more detail. Should you have any immediate questions please contact me at graham.wood@centrica.com or 07979 567686.

Yours faithfully,

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Appendix

Consultation on Switching Programme; Proposed modifications to regulation and governance

Chapter 2: Transitional Requirements

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 the introduction of a high-level duty to cooperate upon licensees as we believe that this will ensure broad buy in to the delivery of the switching programme. Learning lessons from previous large scale multi-party industry wide change programmes, for instance Project Nexus, such a duty to cooperate will ensure coordination across industry parties and will limit the disruption to implementation plans and timelines through lack of participation and readiness from one or more organisations.

Whilst we support the intent of the duty to cooperate, we would however encourage Ofgem to ensure that its implementation does not result in overly onerous obligations to submit to oversight to such an extent that it becomes a burden to licensees. We also feel it may be appropriate to consider a risk based approach to oversight, whereby the level of oversight is commensurate with the level of risk that a single licensee or organisation poses to the overall delivery path of the programme.

It is important for Ofgem to provide clarity and opportunity for further consultation on how they will designate change programmes as meeting the "significant code project" benchmark. To this extent, it would be helpful to clearly define criteria or a set of principles that will support the determination of whether a change programme meets the materiality threshold for being designated a "significant code project".

Q2.2: Do you agree that the RECCo should be established earlier than REC v2 in order to assist with the successful delivery of the Switching Programme?

Yes, we agree that the RECCo should be established prior to the designation of RECv2. Establishing RECCo early will provide greater stability to the programme as we undertake transformation of industry governance arrangements.

Q2.3: Do you agree that the bodies constituted under the REC could suitably play a formal part in the programme?

Yes, we fully support the proposal that the bodies constituted under the REC could play a formal part within the switching programme, particularly as the regulatory arrangements that will sit within the REC are further developed. REC parties have an obvious interest in participating in the development of the code and are critical to the establishment of any effective and proportionate performance assurance framework and as such may be better placed to lead its development and implementation.

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

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Yes. We agree with the definition of a large supplier in that this is consistent with the definition used elsewhere within licence and that using this should ensure an adequate level of engagement with UEPT.

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 with the proposal to establish interim governance arrangements prior to REC v2 coming into effect and until the RECCo, REC Board and Panel has been established, it would be prudent to utilise the existing MRA and SPAA Executive Committees to fulfil any duties that may be required of the REC Panel on an ad hoc interim basis. We also support the proposal for Ofgem to act as the interim REC Manager in the event any change is required to be made to the REC in the period prior to appointment of the enduring code manager.

Chapter 3: REC Governance

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?

The proposed allocation of powers and functions across the three entities has the potential to cause confusion and are notably different to some of the industry models in use today. Whilst we acknowledge that this is being undertaken to address concerns raised by the CMA, it is important that individuals appointed to roles within the Board and Panel have clarity of the arrangements, effort is not duplicated, and processes are not designed such that issues could end up being caught in a governance loop between the Panel and the Board.

It is important to fully understand how in practice the proposed model will deliver tangible benefits and potentially different, better decisions over and above an established model. An example of this is the drafting and approving of annual budgets. Currently for most codes this is efficiently undertaken by one entity, in the proposed REC model this responsibility is spread across both the Panel and the Board, a split in roles & responsibilities would appear to be inefficient and it is not clear how this split would be beneficial to consumers. It is also important that parties and individuals that actively operate in the market, who therefore have a clear perspective on the requirements of end consumers, are engaged within both the Panel and Board arrangements. We are concerned that having a different set of individuals appointed to both will not be conducive to delivering meaningful engagement from industry parties, for example the proposed role of the Panel appears to be a less appealing role to undertake when compared to some of the existing code panel/executive committee arrangements.

We agree in principle with the role of a REC Manager, although we have examples within todays arrangements of some code administers undertaking a similar role, seeking to lead evolution of industry arrangements rather than simply undertaking processes against a set of prescriptive rules. We agree that it will be important for the REC Manager to drive efficiencies with the REC and wider governance arrangements, however we need to be wary that the introduction of a 'Manager' role rather than 'Administrator' role does not automatically manifest itself into an overly expensive service offering, particularly as a high proportion of the role will be as is today i.e. the provision of support to code parties, the efficient operation of the modification process, delivery against contractual obligations and KPIs and cross code collaboration.

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Q3.2: Do you agree with our proposal that independent Non-Executive Directors (NEDs), potentially from outside of the energy industry, should be present on the RECCo Board and that the composition of the RECCo Board should be subject to thorough review, both periodically and/or whenever the scope of the REC/RECCo Board responsibilities changes substantively?

We do not agree with or support the introduction of a model (Model B) for the establishment of a REC Board that consists solely of members appointed from outside of the energy industry. We note Ofgem's view that this model would enable the Board members to 'become custodians of consumers' interests', however under this model none of the Board would have live, direct experience of the issuing facing energy companies or their consumers. Energy Suppliers operate in a competitive, customer-centric environment and already operate in a manner which is in the interests of consumers. We would therefore prefer to see a model that is based upon the hybrid 'Model C' option described within the consultation. This model would combine any benefits associated with the introduction of independent Non-Executive Directors (NEDs) and the insight and experience of members who are operating and delivering the REC code arrangements day to day and directly engaging with end consumers. This model would also resolve any issues of potential disconnect between the Panel and the Board.

We agree that the composition of the Board should be periodically reviewed, especially as code arrangements evolve over time. It is important that Board members need to be able to demonstrate their effectiveness within the role, particularly if the Board roles are constituted of, in full or in part, paid NEDs. The additional cost to end consumers of appointing and paying NEDs will need to be justified.

Q3.3: Do you agree with the proposed composition, powers and functions of the REC Panel?

We agree with the four considerations (accountability, enfranchisement, expertise and size) that need to be taken into account when considering the composition of the REC Panel.

Whilst we recognise that there are at times logistical issues for parties in terms of attendance of meetings and we welcome the ongoing use of telecommunication facilities at all meetings, at times given the complexity and or materiality of some issues the best course of action is to hold face to face meetings. Whilst we are neutral to the location of these meetings, achieving a logistical solution that meets the needs of all parties is not going to be possible given the wide geographical spread of potential participants. We do not agree with the reimbursement of reasonable travel expenses by the RECCo, this is not a common arrangement across the current industry code landscape and over the many years of code operation there has not been a call or an appetite to introduce such arrangements.

We agree that the future composition of the REC Panel should be founded upon some basic principles. We concur that the introduction of independent members to directly represent consumer interests is appropriate and we can point to examples within current code arrangements where this is already in place and effective. The size of the Panel is also important and there needs to be a balance between the overall number of Panel members versus ensuring that the interests of all constituencies are appropriately represented and decision-making process are efficient.

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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?

We agree with the proposal to include appropriate entry and systems testing requirements into the enduring regime for new entrants. This will ensure the ability of all parties to interact effectively with both the CSS and other industry participants and protect consumers from experiencing delays or problem during the switching process.

Chapter 4: REC Content

Q4.1: Do you agree with the proposed minimum content for REC v2 (as listed in Appendix 3)? Is there any other content we should consider for inclusion in REC v2? If yes, please provide further details.

We agree with the proposed minimum content for REC v2 and are not aware of any other additional content that should be considered for inclusion at this stage.

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?

The principle of the REC Code Manager collating Switching Domain Data and making it available to market participants appears sensible, however the current mechanism for provision and maintenance of the data elements that are already mastered under existing codes is well established and reliable. We should avoid unnecessary changes to the way in which this data is provisioned to market participants unless we can clearly demonstrate that there is a benefit to changing the current arrangements.

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)?

We support the proposal to subject the DCC to data quality objectives and performance standards, to drive continuous improvement in the quality of address data, which in turn should result in more reliable consumer switching outcomes. The REC sets out the intention for the DCC to maintain a REL address data quality indicator which is one way to measure performance, but there may be many other indicators as to the quality of address data and whether the REL address data quality indicator itself is a reliable means of measuring performance. For instance, one the key drivers of erroneous switches at present is thought to be poor quality address data which drives a failure in the ability to reliably select meterpoints (with as many as 70-80% of erroneous transfers being categorised as "Incorrect MPxN"). A reduction in the percentage and volume of these types of erroneous switches would indicate improving address data quality. Equally, the prevalence of plot addresses, another issue which

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the industry is attempting to tackle at present would be another good indicator as to the quality of address data and performance of the DCC in maintaining address standards.

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.

Yes, we believe that there would be value in making the REL Address data quality indicator available to market participants. There are merits to making this data item available to suppliers, for example during the switching process this indicator may provide suppliers with a means of potentially identifying a switch that may require additional validation and triangulation in the prevention of erroneous and delayed switches. This would not be used to prejudice customers and prevent them from switching, but to inform a risk based approach to sales validation and focus additional effort on ensuring that we do everything possible to provide a quick and reliable switching experience where we know there may be a concern as to the quality of REL Address.

Making suppliers aware of potential concerns with the quality of the REL Address may also allow suppliers to take proactive action in their engagement with customers to facilitate improvement of the quality of that address, which should support the objective of improving the quality of address data across the industry.

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 it would be beneficial to publish this methodology and furthermore to develop it in consultation with market participants and other central service providers in order to drive continued collaboration to improve the overall quality of address data.

Q4.6: Do you support the creation of an Enquiry Services Schedule in REC v2? If so, which of the options around the requirements (in paragraph 4.32) do you prefer? Please provide details to explain your answer.

With the REC subsuming the MRA content, at the very least we would expect to see the creation of an Enquiry Services Schedule in REC v2 and for this schedule to govern access to the relevant ECOES data items. Option 2 as proposed in the paper seems to create more complex governance arrangements by splitting data access governance between the UNC and the REC – we cannot see a compelling reason to do this. Our starting position would be to proceed with Option 3 to create a Data Enquiry schedule that provides data access governance for the ECOES data items from the MRA, alongside content setting out service standards, providing a single source of refence for DES & ECOES access, with DES data access governance remaining under the UNC. As the industry explore opportunities for further code consolidation activity through existing code governance arrangements, it can be considered if moving further towards option 1 would be a worthwhile exercise.

Q4.7: Do you agree with our proposal to create a REC Exceptions Schedule to be contained in REC v2, with the scope outlined in Figure 3? If not, please provide further details.

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We agree with the proposal to create a REC Exceptions Schedule within REC v2 as per the scope outlined in Figure 3. We also support the intent to adopt a customer centric approach to drafting as we agree that some of the drafting within the current industry codes can be difficult to engage with. However, it is vitally important that through this re-drafting we do not lose the important detail or context held within the existing codes and subsidiary schedules and that they do not become too focussed on being made accessible to new market entrants to the extent that they lose meaning for existing industry parties.

Q4.8: Do you agree that the grey areas highlighted in Figure 3 should be out of scope of an Exceptions Schedule for REC v2? If not, please provide further details.

Yes, we agree that the areas highlighted in Figure 3 should be out of scope for REC v2.

Q4.9: A list of suggested content for a set of REC Technical Documents can be found in section 4.44. Do you believe that any of the content listed is unnecessary or is there any content that you would expect to be included? If so, please provide details.

We agree that the documents as listed in section 4.44 are appropriate and do not believe that there are any additional documents that should be included at this stage.

Q4.10: Do you believe that table 1 captures all of the items that should become a REC subsidiary document? If not, please provide details of the additional items that should be included and why.

We broadly agree with the list of items captured as potential REC subsidiary document candidates and would not seek to add or remove items from this list. We support Ofgem's view that further thought needs to be given to the governance arrangements for these products as many of them are not "live" documents (i.e. CSS Procurement Documents) and therefore not necessarily subject to change control.

Q4.11: Do you believe we have assigned the correct responsibility for producing each REC subsidiary document? If not, please provide further details.

Yes, we believe that the correct responsibility has been assigned for the production of REC subsidiary documents.

Chapter 5: The DCC licence

Q5.1: Do you agree with the role we have set out for DCC during the DBT phase and steady state operations? If not, why not?

Yes, to a large extent we agree with the proposed role that Ofgem has set out for the DCC during the DBT phase and steady state operations. We believe that effective contract management of the selected service providers, against contracts and incentive frameworks established through the procurement process by the DCC, will be best achieved by providing continuity and stability through extension of the DCC's licence into the DBT phase and steady state operations.

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We note the reference made to and the definition of steady state operations and the steady state operations commencement date and would welcome greater clarity on what exit criteria will be used to determine when we have achieved steady state operations, and furthermore when we should expect this thinking to be developed for further industry consultation.

Q5.2: Do you believe that our proposed drafting to amend LC 15 of DCC's licence would, if implemented, accurately reflect our expressed intentions? If not, why not?

We believe that the proposed drafting to amend LC 15 would reflect Ofgem's expressed intentions.

Q5.3: Do you agree with our proposal to add new CRS specific price control terms. Do you think any of these terms are unnecessary or are there other terms we should consider adding?

Yes, we agree with Ofgem's proposal to add new CRS specific price control terms, as we believe that these additional terms will facilitate greater transparency of the CRS costs and will enable the industry to more easily unpick expenditure if the management of the CRS is novated away from the DCC in the future.

Q5.4: Do you agree with the high-level programme outcomes we believe the programme should look to incentivise? Can you suggest further areas we should look to include and are there aspects you believe should be prioritised?

We agree with the high-level programme outcomes that Ofgem are proposing to incentivise. In terms of prioritisation, the DCC delivering against each of the outcomes is critical for the success of the programme. However, if the programme is to achieve its aims and deliver real value to consumers, it is imperative that above all else the DCC delivers reliable, secure and robust systems that support the implementation and operation of more reliable switching arrangements, alongside proactive data stewardship to improve the accuracy of switching related data.

Chapter 6: The SCR process

Q6.1: Do you agree with the changes that we propose to make to the scope of the Switching SCR?

We agree with the changes proposed to the Switching SCR. It is important to learn from previous large scale industry implementations such as Project Nexus and ensure that the overarching arrangements in place to deliver the complexity of the CSS and REC are robust. Extending the Ofgem led end-to-end approach under Option 3, to lead the development of code modification proposals and associated legal text is the most efficient way to deliver the required changes across numerous code governance processes within the confines of overall project timeframes. It is however important that industry parties have a full part within the development of code modification and have appropriate opportunity to comment on all proposals via the normal code consultation processes.

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Q6.2: Are there any further changes that you consider we should make, either to bring something into scope, or to explicitly rule it out of scope?

We do not believe that there are any further changes required to the scope of the SCR.

Q6.3: Do you agree with our proposed approach of publishing the drafting of all SCR related changes circa Q1 2019, but waiting until systems have been proven through testing before submitting the proposals into the modifications process?

We are mindful that the volume and complexity of changes to industry code arrangements will be significant. We therefore support the drafting and circulation of all SCR related changes at the earliest opportunity (not waiting for an arbitrary milestone with the overall project). This will allow time for all industry participants to fully understand the changes being proposed, participate in their development and reflect the proposals within their own delivery efforts. Should draft proposals need to evolve over time, for example as a result of system testing, the early transparency of the expected changes will ensure the ability to revise the proposals as required in a co-ordinated manner. All modifications should only enter the final stages of the modification process, consultation and voting/panel recommendation, once the individual change requirements have been crystallised. This will prevent the risk of further modifications being required to amend previously approved proposals.

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