

# Switching Programme **EDAG**

22 June 2017

ofgem

<b>1. Welcome &amp; introductions</b>	15 mins	Rachel Clark
<b>2. Potential transitional phase</b>	15 mins	Andrew Wallace
<b>3. RP2a</b> <ul style="list-style-type: none"> <li>Description and analysis of a new proposal to phase delivery of RP2</li> </ul>	45 mins	Andrew Wallace
<b>4. Key policy variations following RFI analysis</b> <ul style="list-style-type: none"> <li>Objections</li> <li>Cooling off</li> <li>Working day vs calendar day</li> <li>Proposed changes to existing reform packages based on RFI analysis</li> <li>Overview of reform package costs</li> </ul>	60 mins	Andrew Wallace
<b>5. IA update</b> <ul style="list-style-type: none"> <li>Overview of IA impacts</li> <li>Initial view on preferred reform package</li> </ul>	45 mins	Tom Fish
<b>6. Update on DLS phase</b>	15 mins	Arik Dondi
<b>7. Next steps and AOB</b>	10 mins	Rachel Clark

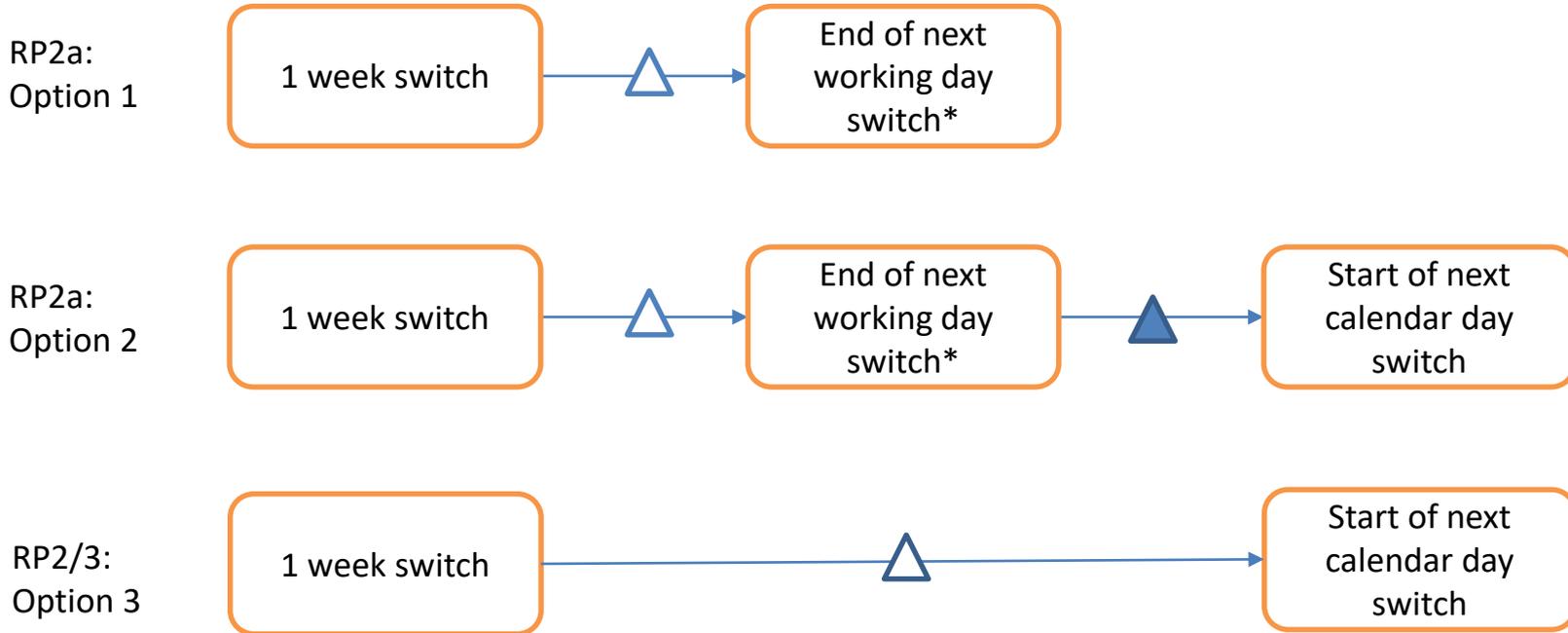
- We are leaning towards recommending implementation of next-day switching functionality on a CSS.
- From a consumer perspective, and to support reliability, we expect to establish a transitional period that would provide reliable one week switching with a glide path towards next-day.
- Suppliers can go faster if they want. The market more generally would move to next day switching when we have confidence on reliability
- There are options for how this glide path is achieved and whether the ultimate goal is end of next working day or start of next calendar day and how to determine when we reach that goal.

- We have developed a new option which is based on RP2 (referred to as RP2a). The main change is that it has a 1 working day objection period for domestic consumers and 2 working day period for non-domestic.
- For domestic, RP2a delivers a minimum switch time of end of next working day switching. For non-domestic, it is end of the following working day.
- Our initial assessment is that RP2a reduces cost and delivery risk and focuses on reliability while providing a material improvement to speed from the start.
- We are also considering the potential to phase RP2 and 3 to make sure that reliability concerns are addressed from the outset. For these two reform packages, the systems would operate instant objections and be “start of next calendar day capable”.
- Having taken into account your views today and the views of SPDG on 4 July, we propose to return to EDAG on 19 July with our updated thinking. We will then be making our recommendation to the Programme Board at the end of July.

# TRANSITIONAL PHASE

- We have developed a series of improvements that we expect to increase data quality and use to allow faster switching without an impact on reliability. However, the impact of these remedies is unproven and we would want to be clear on their impact before moving to next-day switching.
- We have therefore looked at alternative options and approaches that put in place the systems and processes for reliable and fast switching on a CSS and can increase speed over time once we have greater confidence and experience that this will not have a negative impact on overall consumer engagement in the market.
- For this reason we propose to add an initial short term transitional period to review effectiveness of reliability reforms for all the reform packages. This would result in a one week switch in the first instance, for any reform package, pending us being confident that the new arrangements are delivering sufficient reliability improvements to mean that this would not risk harming the customer experience.
- The move from one week to next day would be triggered by a light touch review based on objective reliability performance criteria.

# Summary of phasing options



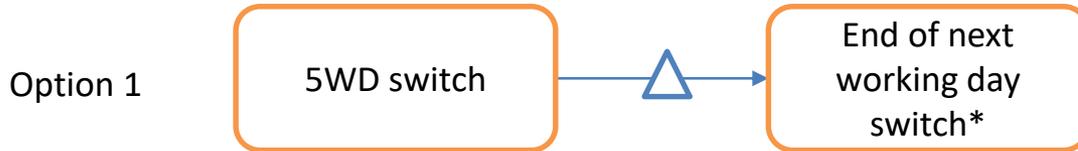
Key  
△ Light touch assessment  
▲ Formal review

\* End of second working day  
for non-domestic consumers

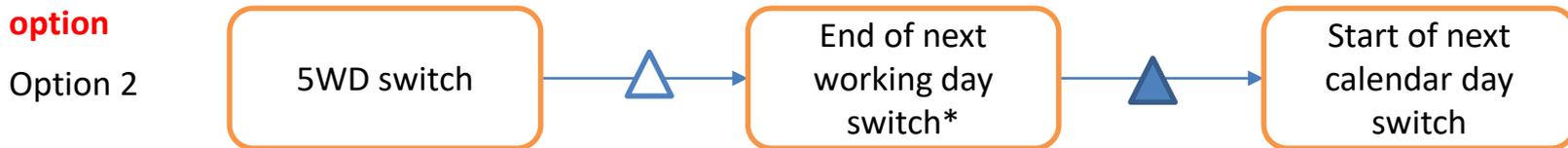
# RP2A

- The cost of operating instant objections and calendar day working are significant, including when set against the currently identifiable direct benefits.
- We have therefore developed a revised version of RP2 (known as RP2a) that allows a 1WD objection period for domestic and 2WD objection period for non-domestic consumers during the reliability buffer.
- We note that there are options on retaining the 1WD/2WD functionality beyond the removal of the transitional period (which would give end of next working day switching for domestic consumers) or, subject to a decision making process, moving to start of next calendar day switching.

# Summary of RP2a phasing options



**Preferred option**



Key

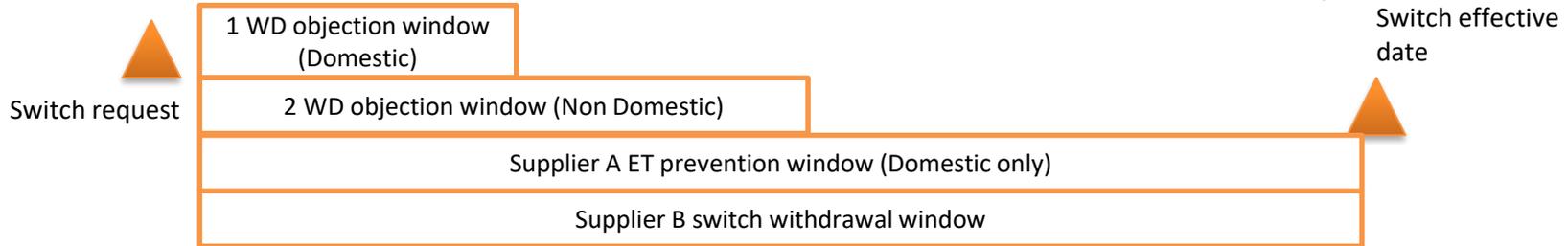
-  Light touch assessment
-  Formal review

\* End of second working day for non-domestic consumers

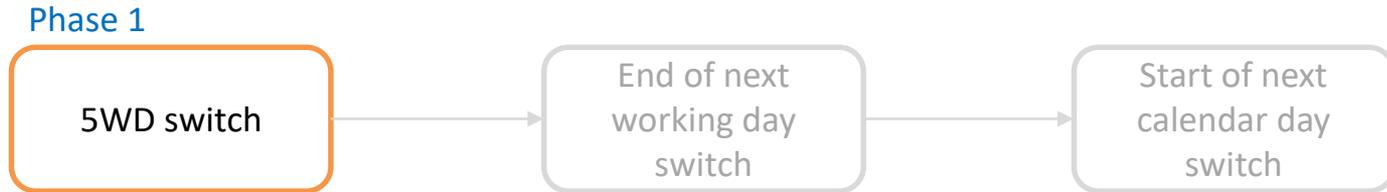
# Why we propose to include Option 2 in the September Blueprint consultation

- We have identified two types of review that could be undertaken as the gateway between phases:
  - *Light touch assessment*: Move to next phase when defined criteria are met eg around the reliability of the switching process.
  - *Formal review*: Requires detailed analysis and consultation before deciding to move to the next phase
- We think that a light touch review is proportionate for the move from 5WD to end of next-day working switching. As described later in this slide deck, we are not expecting there to be a need to change central systems to facilitate this behavioural change and we have taken account of the costs to other market participants as identified from the RFI in the impact assessment. We expect to define criteria that allow this move to be made once it is clear that the risk to consumer engagement has been mitigated.
- A move to start of next calendar day switching will require changes to industry code rules and systems and will require additional capex and higher operating costs. Before making this move we therefore propose that a formal review, focusing on suppliers, is undertaken.

# Proposed first phase for RP2a : 5WD switching



D-5	D-4	D-3	D-2	D-1	D
Customer contracts with Supplier B (directly or through PCW)	Supplier A must send any domestic objection request to CSS by 17:00	Non-domestic switch same as for domestic but with 1 WD longer to object		Supplier B has until gate closure (17:00) to withdraw switch	Switch takes place at midnight 00:00:00
PCW/Supplier validates contract data	If no domestic objection: CSS sends immediate confirmation of switch to Supplier A and B, DCC and shipper			Supplier A has until gate closure (17:00) to raise CRO to block switch	
Supplier submits switch request using 24/7 real-time interface	If Supplier A objects: CSS sends immediate notification of objection to Supplier B			After execution CSS sends immediate notice of execution to Suppliers A and B, shipper, DCC and losing agents	
CSS validates switch request				Supplier B to reconfigure smart meter (by midnight where feasible)	
CSS immediately sends invitation to object to Supplier A					



There are four key design elements to the 5WD switch process

- 1WD objection window for domestic customers
- 2WD objection window for non-domestic customers
- Switch withdrawal window flexes to match the time available between switch request and 5pm on D-1 **calendar** days
- Supplier A can raise a CRO to prevent an ET at any time between the switch request and 5pm on D-1 **calendar** days

# Should there be a 1 or 2WD objection window for domestic customers in Phase 1?

Pros of 1WD window	Cons of 1WD window
Suppliers will have in place the systems needed for the move to end of next day switching	There may be additional cost for suppliers in managing a 1 WD process (greater automation and ensuring that any manual checking happens in a shorter timeframe)
Avoids code changes and consultation that would be required to reduce from 2WD to 1WD.	
Gives Supplier A greater control over how quickly to switch and in meeting consumers requirements.	
Avoids supplier costs in moving from 2 to 1 WD objection period once reliability established	

**Recommendation:** 1WD objection window for domestic customers in Phase 1

# Should there be a 1 or 2WD objection window for non-domestic customers in Phase 1?

Pros of 2WD window	Cons of 2WD window
Allows check of Change of Ownership (COO) flag during working hours	Does not enable end of next working day switching
Allows longer period of time to make contact with non-domestic customers	Increased costs for suppliers managing different objection timescales for domestic and non-domestic consumers
Blocking switches where the COO flag has not been correctly applied is likely to reduce supplier costs	

**Recommendation:** 2WD objection window for non- domestic customers in Phase 1

## For Phase 1, should a minimum 5WD period be a hard coded or can suppliers go faster?

Pros of allowing faster speed	Cons of allowing faster speed
Suppliers can go faster (potentially to end of next working day) if they are confident about switch reliability. This means that they can exploit competitive advantage and meet customer requirements.	Without adequate regulation or incentives, suppliers may go faster than they should, leading to more ETs and impact on market reputation/consumer engagement
Does not require code modification to facilitate a move to end of next day switching	Confusion if standards are published (eg through Switch Guarantee) and some suppliers are offering faster speeds
Risk that faster switches would lead to more ETs in phase 1. Would need firmer obligations on supplier B to avoid ETs and may have to require Supplier B to compensate customers where there is an ET	

**Recommendation:** Suppliers should be able to meet consumer requirements and go faster where this is not likely to have a materially negative impact on consumers.

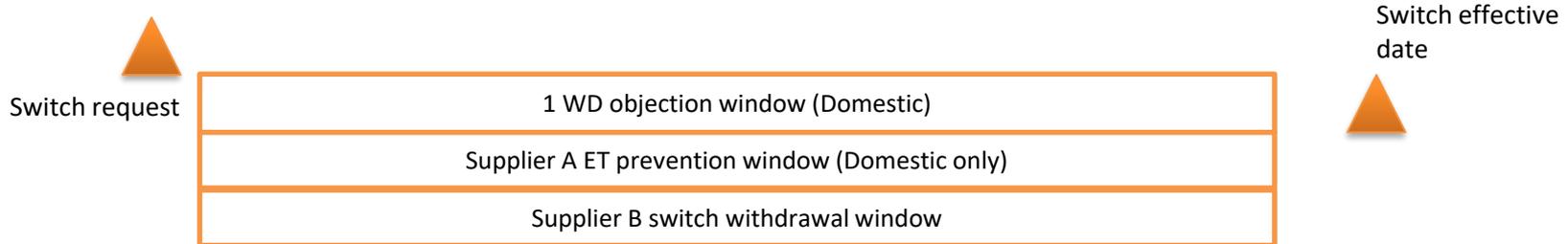
## For Phase 1, should Supplier A be able to prevent an ET?

This is a new proposal for domestic customers, based on the same principle as the current CRO process. It would allow Supplier A to stop a switch when a customer warrants they have not entered into a contract with a new supplier. Evidence would need to be retained.

Pros of Supplier A ET avoidance	Cons of Supplier A ET avoidance
Allows customer to contact their supplier to stop an ET rather than need to make contact with a supplier that they do not know	Potential for Supplier A to use process outside of regulatory rules
Avoids need for Supplier A to contact Supplier B (in potentially tight timescales) to request switch withdrawal	Complexity in the non-domestic market may mean that it is better for the customer to discuss with Supplier B
Allows compression of objection window as precursor to end of next day switching while providing opportunity to stop ETs	For non-domestic customers, it could mean that a one fail/all fail switch was blocked if there is an issue with one of a portfolio of customers

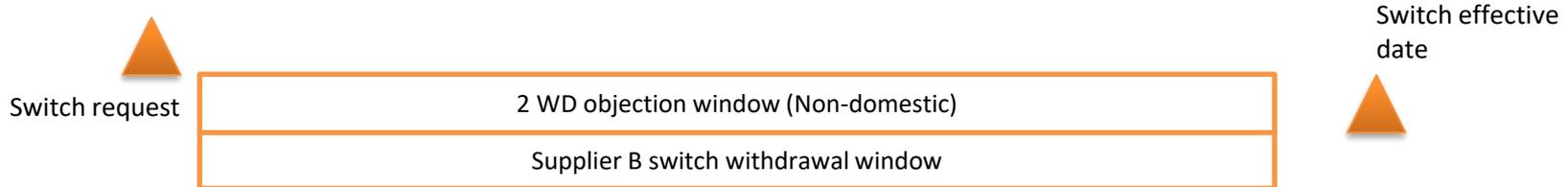
**Recommendation:** Supplier A can raise a CRO to block an ET for domestic customers. Non-domestic customers continue to contact new supplier.

# Proposed second phase for RP2a (Domestic)

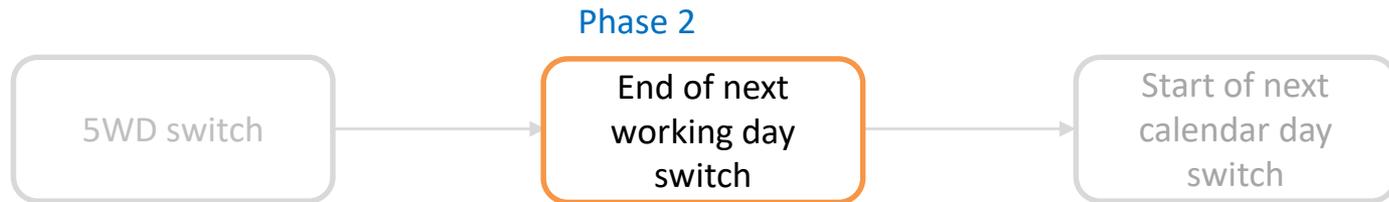


D-2	D-1	D
<p>Customer contracts with Supplier B (directly or through PCW)</p> <p>PCW/Supplier validates contract data</p> <p>Supplier submits switch request using 24/7 real-time interface</p> <p>CSS validates switch request</p> <p>CSS immediately sends invitation to object to Supplier A</p>	<p>Supplier A must send any objection requests to CSS by 17:00</p> <p>If no objection: CSS sends immediate confirmation of switch to Supplier A and B, DCC and shipper</p> <p>If Supplier A objects: CSS sends immediate notification of objection to Supplier B</p> <p>Supplier B has until gate closure (17:00) to withdraw switch</p> <p>Supplier A has until gate closure (17:00) to raise CRO to block switch</p> <p>After execution CSS sends immediate notice of execution to Suppliers A and B, shipper, DCC and losing agents</p> <p>Supplier B to reconfigure smart meter (by midnight where feasible)</p>	<p>Switch takes place at midnight 00:00:00</p>

# Proposed second phase for RP2a (Non-domestic)

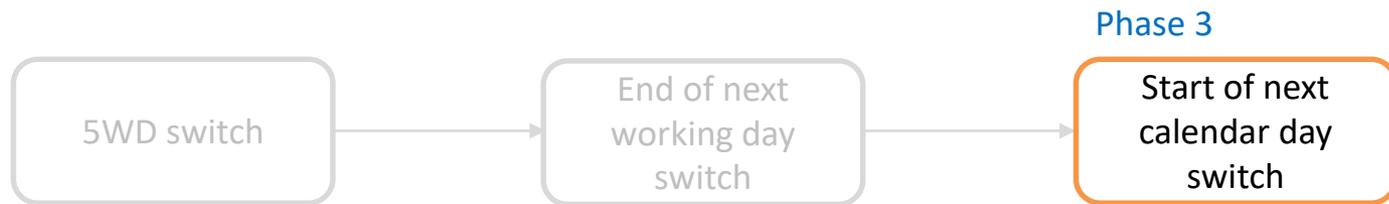


D-3	D-2	D-1	D
<p>Customer contracts with Supplier B (directly or through PCW)</p> <p>PCW/Supplier validates contract data</p> <p>Supplier submits switch request using 24/7 real-time interface</p> <p>CSS validates switch request</p> <p>CSS immediately sends invitation to object to Supplier A</p>		<p>Supplier A must send any objection requests to CSS by 17:00</p> <p>If no objection: CSS sends immediate confirmation of switch to Supplier A and B, DCC and shipper</p> <p>If Supplier A objects: CSS sends immediate notification of objection to Supplier B</p> <p>Supplier B has until gate closure (17:00) to withdraw switch</p> <p>After execution CSS sends immediate notice of execution to Suppliers A and B, shipper, DCC and losing agents</p> <p>Supplier B to reconfigure smart meter (by midnight where feasible)</p>	<p>Switch takes place at midnight 00:00:00</p>



Has same design features as a 5WD switch

- 1WD objection window for domestic customers
- 2WD objection window for non-domestic customers
- Switch withdrawal window flexes to match the time available between switch request and 5pm on D-1 **calendar** days
- Supplier A can raise a CRO to prevent an ET at any time between the switch request and 5pm on D-1 **calendar** days

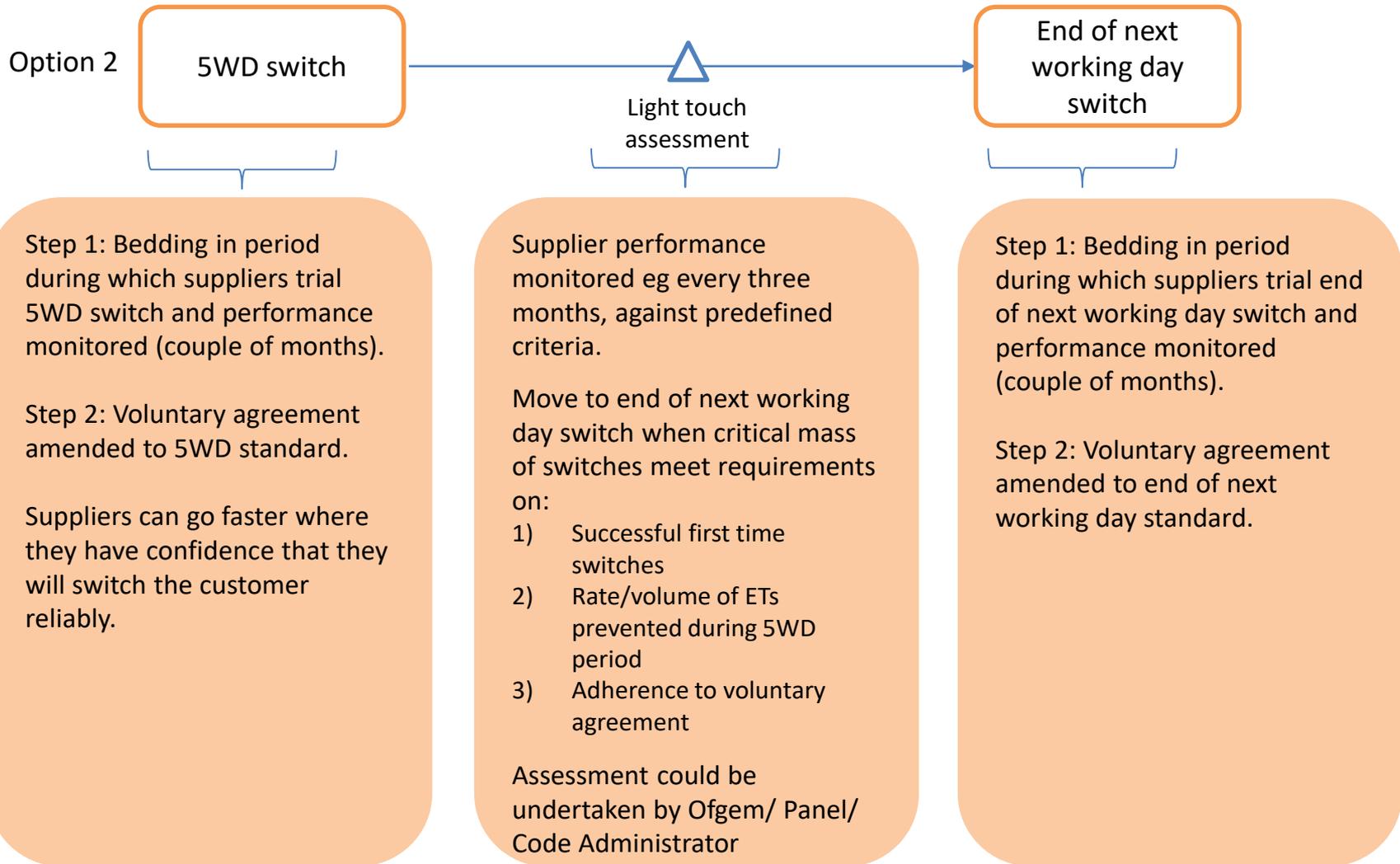


- Requires a full review before implementation
- Review could be undertaken as part of wider Switching Programme evaluation
- Review would test the case for start of next calendar day switching and any additional changes needed to improve the new arrangements for consumers
- New arrangements could be delivered by industry through new code governance arrangements
- Evaluation expected 3 to 5 years after delivery of Phase 1 though we are still considering the appropriate time and it could be shorter
- Expect CSS to be built “start of next-calendar day” ready subject to cost assessment at the procurement stage

# How to ensure that suppliers use the switching speed enabled by CSS

- We are considering how best to secure a fast switch for consumers
- The options include:
  - Leaving this to the market and competition
  - Securing voluntary agreement from suppliers on standard switching speeds
  - Licence obligations
- On the following slide we consider how an approach based on a voluntary agreement could work
- We will consider what the appropriate licence backstop should be when the new arrangements are in place.

# Securing 5WD and end of next working day speed through voluntary agreement



## Overall assessment of phased RP2a approach

- This approach allows a phased introduction of end of next working day switching where good performing suppliers can take up this opportunity when they are ready and the expectation will be that the wider market will move to this speed when defined criteria are met
- It avoids the need for systems changes and code modifications after initial implementation
- It allows the monitoring of supplier performance (in particular ETs) under a 5WD switch to determine if moving to end of next working day switching will not, on balance, harm consumers. It avoids delay and cost associated with a full scale review at this point.
- End of next working day switching is lower cost than start of next day switching. The cost and appetite to move to this can be assessed through a formal view, linked to the wider programme evaluation, once the CSS is in place.
- There is however a risk that suppliers will retain a longer switch, despite the opportunity, and not sign up to the requirements of the switching guarantee.

# POLICY VARIATIONS

- In the RFI we requested data on a number of reform variations
- The main policy variations we tested are:
  - Objections
  - Cooling off
- In light of the cost of calendar day operation for RP1, we have also considered a variation around working days for RP2a
- The following slides summarise the information provided in RFI responses and follow-up meetings
- ...but first, some background on the status of the RFI data

- We have continued to work with RFI respondents to validate the data provided and we are getting to the end of this exercise.
- The data presented in this slide deck represents the latest information that we have from stakeholders. It includes adjustments that we have made to individual supplier responses and an uplift to supplier costs to provide a whole market view.
- We show 15 and 10 year costs discounted at 3.5%. We propose to use the longer time period in the impact assessment as we think that this is a more realistic lifespan of the investment based on historic industry evidence for switching and settlement.
- The data is presented as net values.
- There is still further work to be done to include certain impacts. These are described in the annex

**FIGURES PRESENTED ARE STILL BEING REVIEWED BY OFGEM**

	One-off (£m)	Annual (£m)	10-year (£m)	15-year (£m)
RP1 - 1 working day window	9.0	1.5	19.8	24.2
RP2/3 - Instant reactive	22.3	8.0	83.6	107.6
RP2/3 - Central objections register	23.5	10.0	99.8	129.6
RP2/3 - 5 hour window	21.1	10.6	102.4	134.1
RP2/3 - 20 hour window for non-domestic	19.2	8.6	85.0	110.7
Alternative – 1 WD domestic and 2WD non-domestic window	9.0	2.0	21.2	27.2

Notes

- Costs are additional to current objection costs
- RFI data provided by all Big 6 suppliers, 4 mid-tier suppliers and 7 other suppliers
- Includes uplift to account for non-respondents. Additional £2m capex for RP1/2a and £5m capex for RP2/3. Opex uplift based proportion of 2016 objections that we received cost data for
- Adjustment made to RFI data provided from several suppliers
- We did not request information on a combined 1WD domestic and 2WD non-domestic window. In providing this estimate we have assumed that capex will be equivalent to the RP1 costs. We have assumed that opex will include costs stated for RP1 together with the additional marginal costs identified in the RP2/3 options for having a longer window for non-domestic objections compared to instant reactive. **We welcome views on these assumptions.**

## Further information on impacts

- Current objection window is 5 working days in elec and 7 to 2 working days for gas
- RP1 proposal for 1-day objections is a cost driver for those suppliers that do not have an automated objection process. Many suppliers expect to automate and also run a manual check during this period. They have higher costs for managing this manual checking within a shorter timeframe
- RP2/3 proposal for a 2 second “instant reactive” objections is an additional and significant cost driver for suppliers. Managing data exchange in these timescales requires systems upgrades to move away from batch processing and investment in systems resilience so that it operates on an “always on” basis.
- Non-domestic suppliers have flagged risks that instant reactive objections will not allow them to validate use of the Change of Occupancy flag. Some say that they would struggle to do this in a 1 day window. Suggested that significant number of non-domestic switches have this flag – many of which are incorrect.
- For domestic customers, some suppliers flagged risks around their ability to fully automate (eg for traditional PPM) – although others, including those that have automated have not raised this concern.

- We propose to change the base case for RP1 to a 1WD objection window for domestic and 2WD objection window for non-domestic
- For RP2 and RP3 we propose to retain the base case assumption of instant reactive for RP2 and 3
- For RP2a we propose to have a 1WD objection window for domestic and 2WD objection window for non-domestic

**FIGURES PRESENTED ARE STILL BEING REVIEWED BY OFGEM**

	One-off (£m)	Annual (£m)	10-year (£m)	15-year (£m)
Removing requirement to offer equivalent terms	- 2.9	- 1.1	- 11.4	- 14.7

Notes

- Represents saving against a requirement in domestic market for Supplier A to take a customer back on equivalent terms if they cancel contract during cooling off period
- Responses from all Big 6, 2 mid-tier and 3 other suppliers
- Includes uplift to account for non-respondents. Uplift of opex based on responses received covering suppliers that switched 60% of customers in 2016. Doubling of capex as independent suppliers make greater use of common systems from third party providers and expect investment efficiencies to be realised. We think that this overstates the potential capex savings.

## Further impacts and proposal

- Without a willingness from suppliers and customers to switch during the cooling off period, the minimum switching speed that the customer will experience is 14 calendar days (current practice is 21 days)
- We tested a variation for Supplier A to not have to offer equivalent terms when a customer changes their mind. Our base case includes this requirement.
- Disappointing response rate given that some suppliers had raised concerns on cost during the initial policy development phase.
- Ofgem consumer research demonstrated that consumers value choice of returning to Supplier A, starting a different contract with Supplier B or switching to Supplier C

**Proposal:** Include requirement for Supplier A to offer equivalent terms to returning customers that have cancelled during cooling off period, in each reform package

**FIGURES PRESENTED ARE STILL BEING REVIEWED BY OFGEM**

	One-off (£m)	Annual (£m)	10-year (£m)	15-year (£m)
Cost of moving RP1 to calendar day	2.9	15.4	122.0	167.8
Estimated saving of moving RP2/3 to working day	-2.9	-15.4	-122.0	-167.8

Notes

- RP1 base case assumes that existing registration services continue to operate on a working day basis and we asked an RFI question on the cost of moving to calendar day
- The RP2/3 base case assumes calendar day operation. We did not test the cost saving of moving RP2/3 to a working day operation. The figures shown are therefore based on the figures provided for the move of RP1 from working to calendar day.
- Responses from all Big 6, 4 mid-tier and 2 other suppliers
- Includes uplift to account for non-respondents. Opex cost has been subject to a linear uplift from 75% to 100% (as respondents cover 75% of 2016 switches). Capex cost from respondents has been doubled (but has a relatively small impact).

- For RP1, the main cost driver of moving to calendar day working for suppliers are opex. This included costs for supplier staff, and the staff of their metering agents managing switching activity on weekends/bank holidays
- We did not ask for data on operating RP2/3 on a working day basis and have made the following assumptions to estimate this.
  - Opex for RP2/3 should be reduced by same factor as the increase in opex noted by suppliers in moving from working to calendar day for RP1
  - Some suppliers already have staff operating on a calendar day basis and we assume that this is factored into cost estimates on moving RP1 to calendar day
- For RP2a we want to operate the objections timescale on a working day basis but allow the CSS to receive switch requests on a calendar day and to allow a switch to become effective on any day.
- **We welcome views from EDAG on our assumption that we can use the RFI data for calendar day operation under RP1 to estimate the savings of moving RP2 to working day (under RP2a).** There may be other issues that we are unaware of that prevent the full extent of this relative cost saving from being realised in practice.

- Given the high cost, we do not propose to make calendar day the base case for RP1.
- We propose to retain calendar day operation in the base case for RP2/3 but to test the working day handling of objections by suppliers in RP2a.

# Refined reform packages

## Summary of components

	RP1	RP2	RP3	RP2a
<b>Speed during transitional period</b>	5WD 5 to 9CD*	7CD	7CD	5WD 5 to 9CD*
<b>Speed after transitional period</b>	3WD 3 to 7CD*	Start of next calendar day	Start of next calendar day	End of next working day 2 to 6CD*
<b>Objections</b>	1WD domestic and 2WD non-domestic	Instant reactive	Instant reactive	1WD domestic and 2WD non-domestic
<b>WD vs CD</b>	Working	Calendar	Calendar	Some elements eg objections, operate on working day basis only
<b>Enquiry Services</b>	Industry led MIS	Industry led MIS	DCC led MIS	Industry led MIS

\*Includes additional two calendar days are if the switch straddles a weekend. A maximum additional two days would be added to account for a double bank holiday

# Refined reform packages

## Impact on costs

RP1		10 years		15 years
Total marginal costs for RP1 (£000's)	Once-off	Ongoing	Implement and run for 10 years	Implement and run for 15 years
Suppliers	66,607	9,639	138,652	169,947
DCC	10,497	-	9,970	9,970
Others	6,601	923	13,433	16,190
<b>TOTAL</b>	<b>83,704</b>	<b>10,561</b>	<b>162,055</b>	<b>196,107</b>

The annex provides further information on additional cost areas not yet included in the calculations

RP2		10 years		15 years
Total marginal costs for RP2 (£000's)	Once-off	Ongoing	Implement and run for 10 years	Implement and run for 15 years
Suppliers	154,512	28,666	369,313	454,967
DCC	70,132	9,489	140,282	168,635
Others	14,455	1,514	25,480	30,003
<b>TOTAL</b>	<b>239,099</b>	<b>39,669</b>	<b>535,075</b>	<b>653,605</b>

RP3		10 years		15 years
Total marginal costs for RP3 (£000's)	Once-off	Ongoing	Implement and run for 10 years	Implement and run for 15 years
Suppliers	169,007	30,033	393,692	483,431
DCC	103,889	9,765	174,489	203,667
Others	16,880	1,037	24,086	27,186
<b>TOTAL</b>	<b>289,775</b>	<b>40,835</b>	<b>592,268</b>	<b>714,284</b>

RP2a		10 years		15 years
Total marginal costs for RP3 (£000's)	Once-off	Ongoing	Implement and run for 10 years	Implement and run for 15 years
Suppliers	117,960	7,143	129,244	138,566
DCC	70,132	9,489	140,282	168,635
Others	14,455	1,514	25,480	30,003
<b>TOTAL</b>	<b>202,547</b>	<b>18,145</b>	<b>295,006</b>	<b>337,204</b>

← New reform package

# Assumptions used in estimating costs of RP2a

- CSS will be operational on a calendar day basis. However, switching timescales will be set in working days. This means that suppliers will be able to operate on a working day basis. **Reduces supplier 15 year costs by £167.8m** and also potentially reduces other party costs as well.
- Industry will use online messaging rather than batch file exchange for CSS communications. **Assume no change to RP2 costs**
- Suppliers contract with customer, validate and send registration request within the day. We have assumed Supplier RP1 costs here. **Reduction of £68.2m on RP2 15-year costs**
- Supplier A has until 17:00 on the next working day to object for domestic customer and the second working day for non-domestic customers. This will be a configurable parameter and separable between domestic and non-domestic consumers. **Reduction of £80.4m on RP2 15-year costs**
- Supplier A will have sufficient time in the objection window to validate non-dom COT flags. **We expect there to be benefits but have not quantified**
- CSS will have capability to operate a parameterised objection window with fixed cut-off time to facilitate future move to start of next calendar day. **We expect this to have a relatively small impact and have asked DCC to estimate costs. A decision on this approach will be taken based on cost data from procurement.**
- The length of the switch, the registration withdrawal process and the ET avoidance process ensures that all ETs that are currently caught before the switch becomes effective are similarly prevented. **No impact expected here**

# ANNEX

# Supplier RFI response rate

- We have 21 RFI responses from suppliers covering around 80% of gained switches in the market, 90% of lost switches and 95% of meter points.
- Includes all Big 6 and all 6 mid-tier suppliers, 9 other suppliers including 5 non-domestic suppliers.

	Domestic	Elec Non-Dom	Gas Non-Dom
Proportion of gained switches in sector	80.7%	Combined gas and elec 70.5%	
MPxN market share	96.3%	91.4%	70.2%

- A further 75 suppliers did not provide data of which 15 are very small (<100 meter points).

# Impact areas not yet included in industry cost calculations

- DCC led customer enquiry service – we have received cost data which we are reviewing
- Comms network costs – these are not expected to have a significant impact
- Data migration, cleanse and overall programme delivery costs – we are reviewing data from the RFI
- Increase in TPI costs for operating within new switching environment – we are currently discussing with TPIs and PCWs

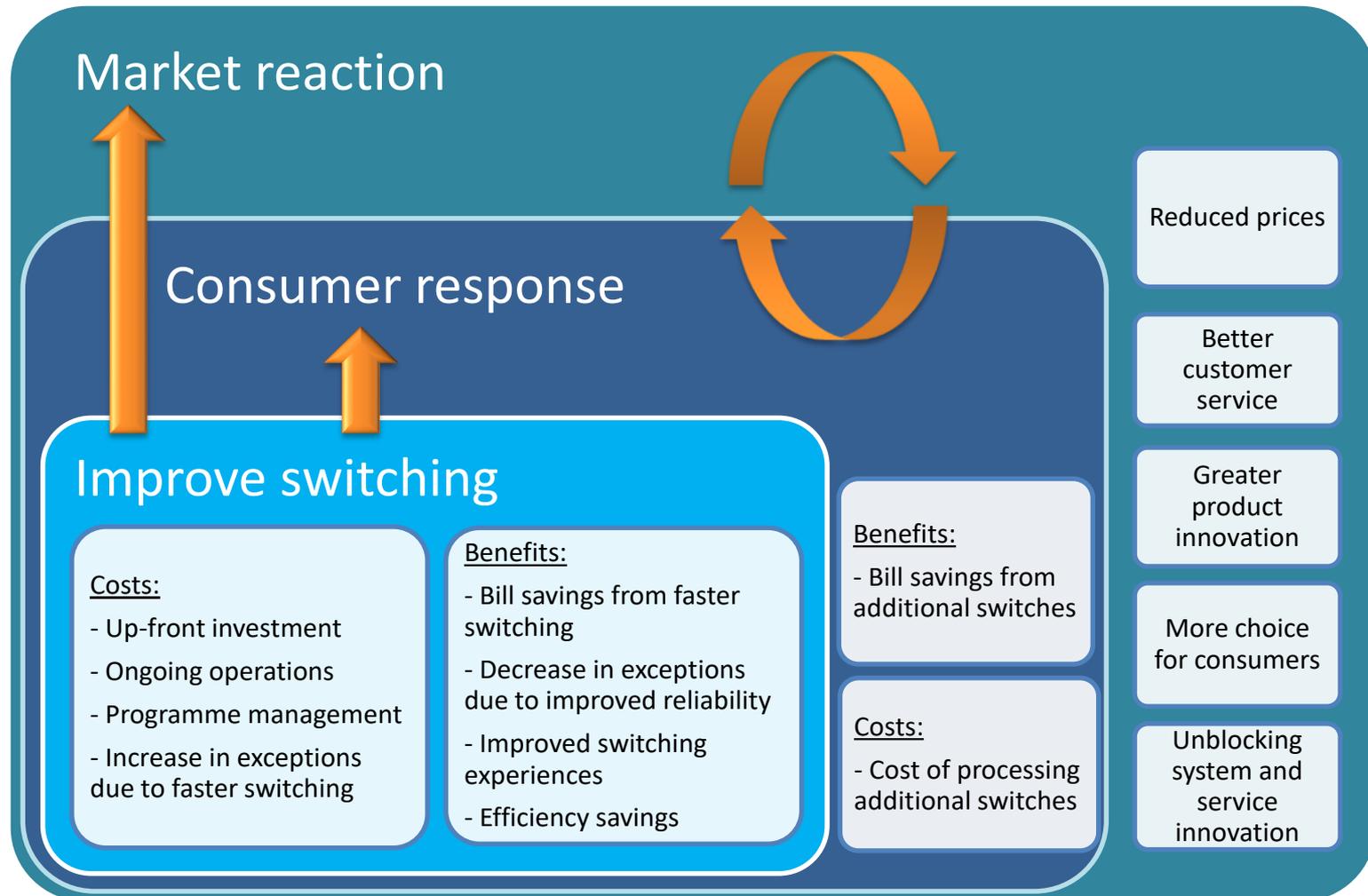
# IMPACT ASSESSMENT SUMMARY

The figures presented here are in the early stages of development, but should be seen as a reasonable indication of the scale of the numbers to be presented in the IA. Some assumptions may need to be adjusted as data and evidence continues to be gathered and tested.

Our initial analysis has led us to the following tentative conclusions:

- The information gathered through our RFI suggests that the benefits of a new DCC-procured MIS would not justify the potential costs. While a new central MIS is not being ruled out as a worthwhile development in future, RP3 in its current form does not appear to be the optimal delivery route.
- While RP1 is the cheapest of the options, therefore offering the smallest negative value for the direct impacts NPV, it is not expected to deliver the step change required in reliability of switching experiences, potentially resulting in an increase in erroneous transfers as a result. By building on existing federated systems, RP1 is also less likely to enable the sorts of future system innovation that we expect a new CSS to be capable of.
- Of the three original reform packages, RP2 appears to offer the best balance between investing in new systems that are fit for the future, and also improving switching experiences for consumers. However, our analysis suggests that almost all of the benefits associated with RP2 could be achieved in a much more cost-effective way through a small compromise to switching speed.
- We have identified that the reforms required to get down from ‘end of next working day’ switching to ‘beginning of next calendar day’ switching could increase the costs over 15 years by around £300 million. In order to justify this additional level of investment now or in the future, our analysis would require an expectation that this change in switching speed would generate a step up in consumer engagement.
- RP2a has therefore been designed to retain and maximise all of the potential benefits of RP2 regarding reliability and future system innovation, while also delivering fast switching at a comparatively much lower cost.

Improving the switching arrangements is expected to deliver significant direct and indirect consumer benefits



## DIRECT IMPACTS OF IMPROVING SWITCHING

The table below summarises our analysis of the direct costs and benefits from each reform package over 15 years, in present value terms.

Direct impacts – central estimates (£million)				
Reform Package	PV Costs	PV benefits	Direct NPV	Additional switches needed each year to break even
RP 1	200	158	-42	30k
RP 2	658	288	-370	280k
RP 3	718	288	-430	325k
RP 2a	341	280	-61	45k

The following slides will summarise our analysis of the following direct impacts incorporated into the above table:

- Industry costs
- Reliability impacts
- Faster access to improved terms
- Public sector costs

# Refined reform packages

## Estimated industry costs

RP1		10 years		15 years
Total marginal costs for RP1 (£000's)	Once-off	Ongoing	Implement and run for 10 years	Implement and run for 15 years
Suppliers	66,607	9,639	138,652	169,947
DCC	10,497	-	9,970	9,970
Others	6,601	923	13,433	16,190
<b>TOTAL</b>	<b>83,704</b>	<b>10,561</b>	<b>162,055</b>	<b>196,107</b>

RP2		10 years		15 years
Total marginal costs for RP2 (£000's)	Once-off	Ongoing	Implement and run for 10 years	Implement and run for 15 years
Suppliers	154,512	28,666	369,313	454,967
DCC	70,132	9,489	140,282	168,635
Others	14,455	1,514	25,480	30,003
<b>TOTAL</b>	<b>239,099</b>	<b>39,669</b>	<b>535,075</b>	<b>653,605</b>

RP3		10 years		15 years
Total marginal costs for RP3 (£000's)	Once-off	Ongoing	Implement and run for 10 years	Implement and run for 15 years
Suppliers	169,007	30,033	393,692	483,431
DCC	103,889	9,765	174,489	203,667
Others	16,880	1,037	24,086	27,186
<b>TOTAL</b>	<b>289,775</b>	<b>40,835</b>	<b>592,268</b>	<b>714,284</b>

RP2a		10 years		15 years
Total marginal costs for RP3 (£000's)	Once-off	Ongoing	Implement and run for 10 years	Implement and run for 15 years
Suppliers	117,960	7,143	129,244	138,566
DCC	70,132	9,489	140,282	168,635
Others	14,455	1,514	25,480	30,003
<b>TOTAL</b>	<b>202,547</b>	<b>18,145</b>	<b>295,006</b>	<b>337,204</b>

	Avg. annual cost to each dual fuel consumer (if passed through)
RP1	£0.53
RP2	£1.78
RP3	£1.94
RP2a	£0.91

← New reform package

# Expected impact on reliability

There are a number of components of our reforms that will contribute to a more reliable consumer experience, ranging from those focused on centralising, cleansing and maintaining better quality address data and improvements to meter technical details, to more narrowly focused amendments to processes such as proposals for related MPANs and linking of dual fuel switches.

We expect the address database remedy, and associated cleansing, maintenance and stewarding activity, to have by far the biggest impact on the reliability of the switching arrangements. Our quantified analysis is therefore, at this stage at least, focused on the impact that improvements to address data quality could have. We have considered how these proposals may affect the volume of the following harmful outcomes:

- Erroneous transfers
- Rejected and abandoned switches
- Delayed switches

In addition to modelling the positive impact of data improvements, we have also set this against the potential harm that could be caused by faster switching, which will limit the industry's ability to identify and prevent erroneous transfers during the existing switching window. For this analysis we have assumed that switching speeds will average 7 calendar days for each reform package for the first year, while the effectiveness of the data improvement work is tested.

# Reliability: Erroneous Transfers

## Erroneous Transfers

We believe there are currently around 220k erroneously registered switches each year, but only around 75k of those are executed as ETs, as many are identified as such during the switching window, possibly down to customer interaction such as a ‘sorry to see you go letter’. These are then either removed by suppliers through the ‘Registration Withdrawal’ or ‘Customer Requested Objection’ mechanisms, or using the co-operative objection process for non-domestic.

By making switching faster, we will place upward pressure on the volume of ETs that a customer will be exposed to, as the opportunity for suppliers to pick up ETs and withdraw them through these mechanisms will be diminished. That said, by improving data quality and consistency, we expect that the volume of ETs being initially registered will fall significantly.

We have assumed that the data improvement remedies will not be as effective under RP1, as there will not be a single source of the truth as gas and electricity addresses will not be matched to a single premises address, and addresses will continue to sometimes be presented in different formats for each fuel, making selections confusing. We will be carrying out further work to understand the likely relative effectiveness of the remedies under RP1 vs RP2/3 over the coming months.

Our tentative analysis suggests that, by introducing beginning of next calendar day switching alongside our data improvement remedies, we could still bring about a small decrease in the volume of ETs overall. By relaxing the switching timescales initially to one week for each reform package, and moving towards next-day switching on a more phased basis, we are able to gain more confidence that we will not move to faster switching in a harmful way for consumers.

<b>Central estimates for the net impact of the reform packages on the volume of ETs, following the initial transitional phase</b>			
	RP 1 (assumed avg. 4 CD)	RP 2/3 (assumed avg. 1 CD)	RP 2a (assumed avg. 2.5 CD)
Net impact on ETs per year relative to assumed counterfactual	+ 41,000	-4,000	- 7,000
Annual saving (industry + consumer)	-£4.1mn	£0.4mn	£2mn

# Reliability: Failed Switches

## Rejected and Abandoned switches

By improving data quality, we expect to increase the success rate of attempted switches. Currently, many switches are abandoned prior to registration, or rejected by the losing supplier post registration. In many of these cases, these attempts to switch will fail due to incomplete or inaccurate address data (from which the suppliers will attempt to identify the consumer’s meter point).

We recognise that many of these switches may ultimately be re-attempted successfully (in particular where the failure was down to human error), but in many cases, where the consumer would need to do more work to verify their details they will be put off and the savings will not be achieved.

By improving data quality, we expect to generate some additional successful switches that would not have occurred in the counterfactual. Our initial analysis of these impacts is summarised in the table below.

	RP 1	RP2 / RP3 / RP2a
Estimated impact on annual number of rejected switches	-25,000	-51,000
Estimated impact on annual number of abandoned switches	-55,000	-109,000
Estimated number of additional successful switches each year	40,000	80,000
Annual additional saving for consumers	£5.5 million	£10.8 million

# Reliability: Delayed Switches

## Delayed switches

Analysis of industry data from the six largest suppliers suggests that around 230,000 switches each year are currently delayed beyond 21 days due to problems with industry address data, though we would expect this number to decline a little in the counterfactual.

We estimate that by improving address data quality with a central address database (ie under RP2/3), this could prevent around 130,000 delayed switches. We have tentatively assume this impact is halved for RP1.

Though the consumer will still receive the same level of savings from a delayed switch, as the length of the fixed term contract will be unaffected, they are likely to feel inconvenienced or irritated by the delay.

In order to monetise this impact, we have assumed that the immediate harm that this inconvenience causes the consumer is at least equal to the value of the savings that would have been achieved during that period. Intuitively, we think this is a conservative assumption for consumers, and does not capture the additional costs for suppliers of handling these exceptional cases. We will seek to refine these assumptions as the analysis develops.

	RP 1	RP2 / RP3 / RP2a
Estimated annual reduction in number of rejected switches	70,000	140,000
Monetised annual value of avoided inconvenience/hassle	£0.3mn	£0.6mn

## Reliability impacts summary

	Impact on volume of negative outcomes (annual)				Reduction in volume of negative experiences
	Reduction in ETs	Reduction in Rejected Switches	Reduction in Abandoned switches	Reduction in Delayed switches	
RP1	-41,000	25,000	54,000	69,000	107,000
RP2	4,000	51,000	109,000	137,000	301,000
RP3	4,000	51,000	109,000	137,000	301,000
RP2a	7,000	51,000	109,000	137,000	304,000

	Monetised annual benefit (£mn)			
	ETs	Additional switches	Delayed switches	NPV benefit
RP1	-£4,120,800	£5,480,000	£284,970	£21mn
RP2	£355,419	£10,823,000	£565,810	£128mn
RP3	£355,419	£10,823,000	£565,810	£128mn
RP2a	£659,530	£10,823,000	£565,810	£131mn

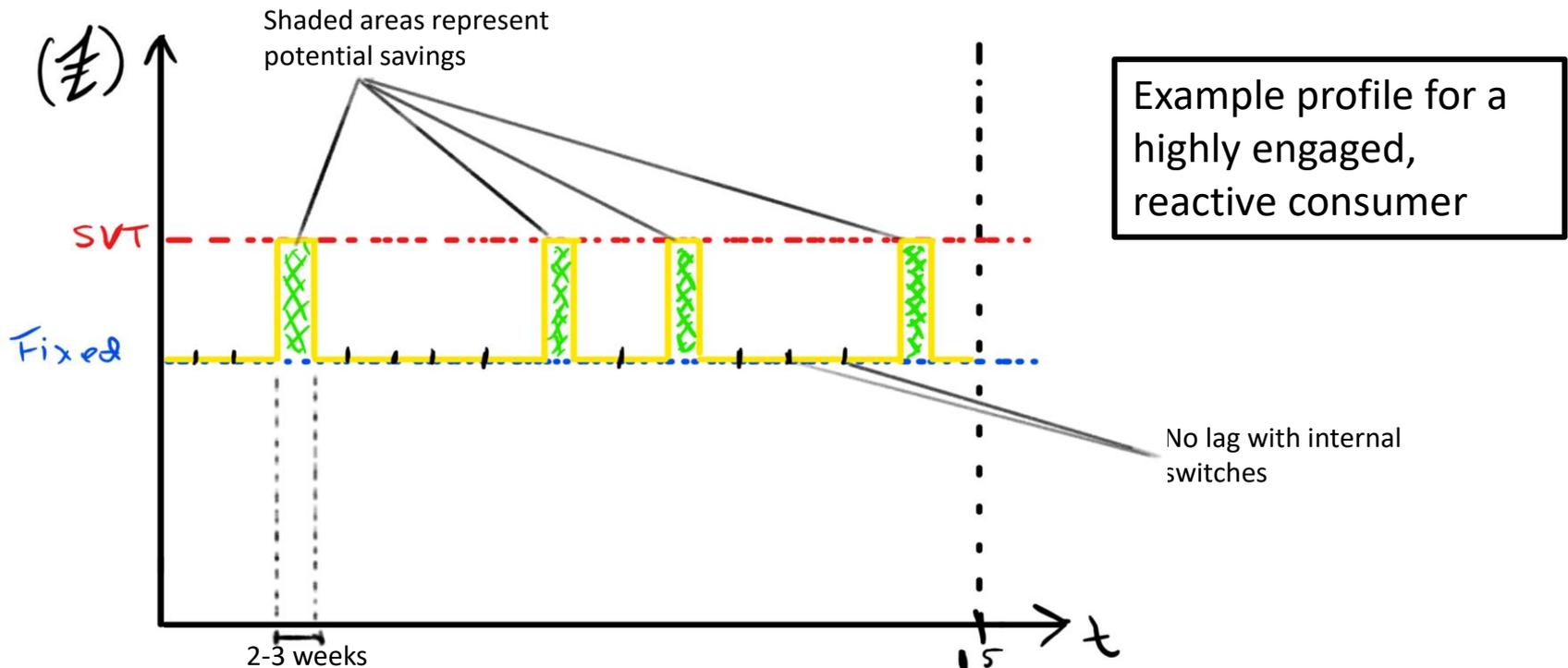
Our analysis suggests that our reforms will lead to hundreds of thousands of positive switching journeys that would otherwise have been a negative experience for consumers. As a result, we can expect that these consumers will be more likely to engage in the market in future than they may otherwise have been. That said, due to the high degree of uncertainty inherent in this analysis, and the relatively small margin for error on the impact on ETs, there is clear merit in moving to next day switching in a phased approach for all reform packages.

We are in the process of commissioning qualitative research with consumers to understand in better detail the impact that the various potential negative switching outcomes can have. The results of this research, expected from July, should help us refine the above analysis of the direct costs of unreliable switching, but also to understand what the consumer response to more reliable switching might be.

# Faster access to better terms

Faster switching will enable consumers to realise savings more quickly, moving off the SVT earlier, but in general this will also mean they roll back onto the SVT sooner as well. For the majority of consumers, faster switching would not directly affect the total cost of their energy bills over a 15 year period.

Consumers that are currently highly engaged ('switched on') but reactive, typically leaving things until the last minute, are likely to spend much of the existing switching window on the SVT. Making the switching window shorter will reduce the time this group of consumers spend on the SVT, saving each of them a small amount of money.



## Faster access to better terms

We know from [TNS consumer engagement survey](#) (2016) that around 15% of consumers are categorised as ‘switched on’. We have taken this group to be our ‘highly engaged’ consumers.

We anticipate that highly engaged consumers will take action to avoid being on the SVT each time their fixed term contract comes to an end. However, while a proportion may be proactive enough to plan ahead and switch early enough to account for the switching window, the majority are probably not so organised.

By avoiding spending one week on the SVT for a dual fuel account, a consumer can save around £5.

Assuming that this group of consumers will switch externally four times out of ten, they will switch between suppliers 5.6 times on average over 15 years.

Each highly engaged but reactive consumer would therefore save around £85 over 15 years as a direct result of next day.

We propose that there are around 3million highly engaged but reactive consumers.

**Collectively, we estimate this group of consumers could collectively save around £137-159 million NPV over 15 years, depending on the reform package that is chosen.**

Avg. switch speed (calendar days)	RP1 (4 days)	RP 2a (2.5 days)	RP2/RP3 (1 day)
Total NPV saving	£137mn	£148mn	£159mn

Costs to Ofgem that result from a decision to take forward a set of reforms will be included in the impact assessment. Relative to the industry and consumer impacts, we expect these costs to be small.

## Transition:

- Ofgem programme costs are budgeted at a total of around £4mn following DB3.

## Ongoing:

- Expansion of team managing DCC price control estimated at 0.5FTE band C (approx. £25k pa).
- The potential for efficiency savings regarding data monitoring and/or compliance needs further consideration.

**The total NPV cost to the public sector over 15 years is estimated at around £4.3million.**

Note: this analysis excludes the cost of drafting code modifications, which is being funded by the industry (so has been recorded as a cost to industry). Also, though Ofgem's work to approve modifications may increase in early years to fix issues with the new system, this may be offset by a reduction in the number of individual modifications that we are asked to assess that will be brought about by a dual fuel system.

## **INDIRECT IMPACTS OF IMPROVING SWITCHING**

The following slides summarise our analysis of:

- Illustrative scenarios for additional switching
- Break-even analysis
- Wider benefits of competitive dynamic market

# Expectations for increased engagement

- By reforming the switching arrangements we will improve consumers' experience of the process, which should in turn improve consumers' general perceptions of the level of hassle and risk involved. Speeding up the process should help to dispel the misconception that the process is complex and risky, or that it needs to be resource intensive, and making the process more reliable will give consumers greater faith that they can engage with the market without something going wrong. By linking gas and electricity meters to the same single address, and giving the consumer greater confidence that they can switch both fuels together at the same time, and potentially working towards an 'Amazon-like' experience of how their switch is progressing, we anticipate making the process much more consumer friendly.
- By improving experiences and perceptions of the switching process in this way, we expect consumers to be more willing to engage with the energy market and to shop around for the best deal. This should lead to a higher level of switching than we would otherwise have seen, generating savings for those consumers on their energy bills.
- Both the threat and the experience of additional switching in the market will provide greater incentive for suppliers to try and attract new customers, and to take steps to retain their existing customers. They may seek to differentiate themselves by lowering their prices, improving their customer service, and offering innovative new products and services.
- As well as encouraging further increases in switching between suppliers, the stepping up of customer retention efforts ought to result in more consumers switching tariffs with their existing supplier, generating further savings.
- We have considered in the following slides what the scale of these benefits could be.

# Savings from more switching

A very modest consumer response to the reforms could generate significant financial savings. We have produced some scenario analysis to illustrate this point.

We have modelled four scenarios below, which are explained in more detail on the slides that follow:

- 1) Scenario 1 – based on very cautious and simple assumptions for an increase in both internal and external switching.
- 2) Scenario 2 – based on results from a consumer survey
- 3) Scenario 3 (in development) – based on data on switching volumes that followed current account switching reforms
- 4) Scenario 4 – the NPV of direct and indirect impacts nets off (break-even analysis)

Note: The analysis makes the simplifying assumptions that baseline switching rates, and the savings available from switching, will remain constant across the appraisal period. In truth, both are likely to vary significantly (most likely up and down) across the period.

# Savings from more switching

## **Scenario 1: NPV benefit of £240 million over 15 years.**

We start the scenario analysis by seeking to illustrate, through a set of deliberately cautious assumptions, what might reasonably be seen as a lower bound on the savings we should expect to generate from additional consumer engagement.

To start with, in the first year, we have assumed that additional media interest and advertising will only generate a surge in switching over a one month period. We have then assumed that there will be a 1% increase in external switching for all years that follow. We also assume that, due to increased competition and customer retention efforts, there will be a sustained increase in internal switching of just 1%.

Over 15 years this would only mean an additional 1.4 million external switches, and around 2.2 million internal switches.

# Savings from more switching

## Scenario 2: NPV benefit of £580 million over 15 years.

For this scenario, we model the consumer response to the reforms and the additional competition that follows based on the responses to a consumer survey on the barriers to switching. When consumers were asked in Jan 2017 (source: GfK Energy360, a syndicated energy market tracker) to select the most important factor that would make them more likely to switch or consider switching their energy supplier in the future, they responded in the following proportions:

<i>Unweighted Base</i>	6734
<i>Base</i>	20394
<i>Better information about the deals available and likely savings</i>	12.86%
<i>Greater financial savings on offer</i>	61.16%
<i>Choice of when the switch takes place</i>	2.07%
<i>Ability to switch within a couple of days</i>	3.87%
<i>Confidence that nothing would go wrong</i>	9.56%
<i>Ability to switch my gas and electricity supply at the same time</i>	4.31%
<i>None of the above</i>	3.85%
<i>Other</i>	2.33%

Around a fifth of consumers identified barriers that will be at least partially removed by our reforms. It may therefore be reasonable to assume that the reforms will have an impact on some of this group's propensity to switch.

For the basis of this scenario, we have assumed that half of this group will conduct just one additional dual fuel switch over the 15 year period. We have also assumed a spike in the first year, akin to a year that contains a three month surge in media interest. This approach leads to an assumption that switching will increase by 12.5% in year one, followed by 4.88% for each year thereafter. From a base of 7.8 million switches per year, a 4.88% increase equates to an additional 380k switches pa.

This would increase the average number of individual meter point switches per household over the 15 year period from 4.31 to 4.54. This scenario does not include any potential benefits from additional internal switching that might result from increased customer retention efforts.

# Savings from more switching

## Scenario 4 – Break-even analysis

In this scenario, we consider how much additional switching would be required to offset the net direct costs of each reform package.

	RP 1	RP 2	RP 3	RP 2a
Direct NPV estimate*	-£42mn	-£370mn	-£430mn	-£61mn
Additional switches required per year	30,000	280,000	325,000	45,000
% increase in switching from 2016 levels	0.4%	3.6%	4.2%	0.6%
Additional switches required per household, on average, over 15 years	0.02	0.16	0.18	0.03

\* This is the NPV for all estimated direct impacts (ie estimated direct benefits minus the estimated direct costs).

# Scenario analysis summary

## Summary of scenarios

Scenario	Indirect impacts NPV (£mn)			
1 – cautious assumptions, incorporating additional internal and external switching.	£240			
2 – based on citizens advice research	£580			
3 – based on current account switching data	TBC			
4 – Required for indirect and direct impacts to break-even	RP1: £42	RP2: £370	RP3: £430	RP2a: £61

We will continue to refine this analysis before it is included within the IA. These initial findings give us a high degree of confidence that the net direct costs of RP1 and RP2a would be comfortably offset by very modest indirect consumer savings. The analysis is positive, but less conclusive for RP2 and RP3.

# Unblocking future system innovation

By introducing flexible, central systems designed with future change in mind, we will be unblocking valuable future industry innovation of systems and services that the existing platforms would not easily support. In particular, we envisage a situation in future where consumers may seek to be supplied by suppliers for relatively short periods of time, enabling them to move between them for different days of the week or even different times of day. There are a number of characteristics of the proposed new CSS that might enable this sort of innovation to either be unlocked, or achieved more cheaply:

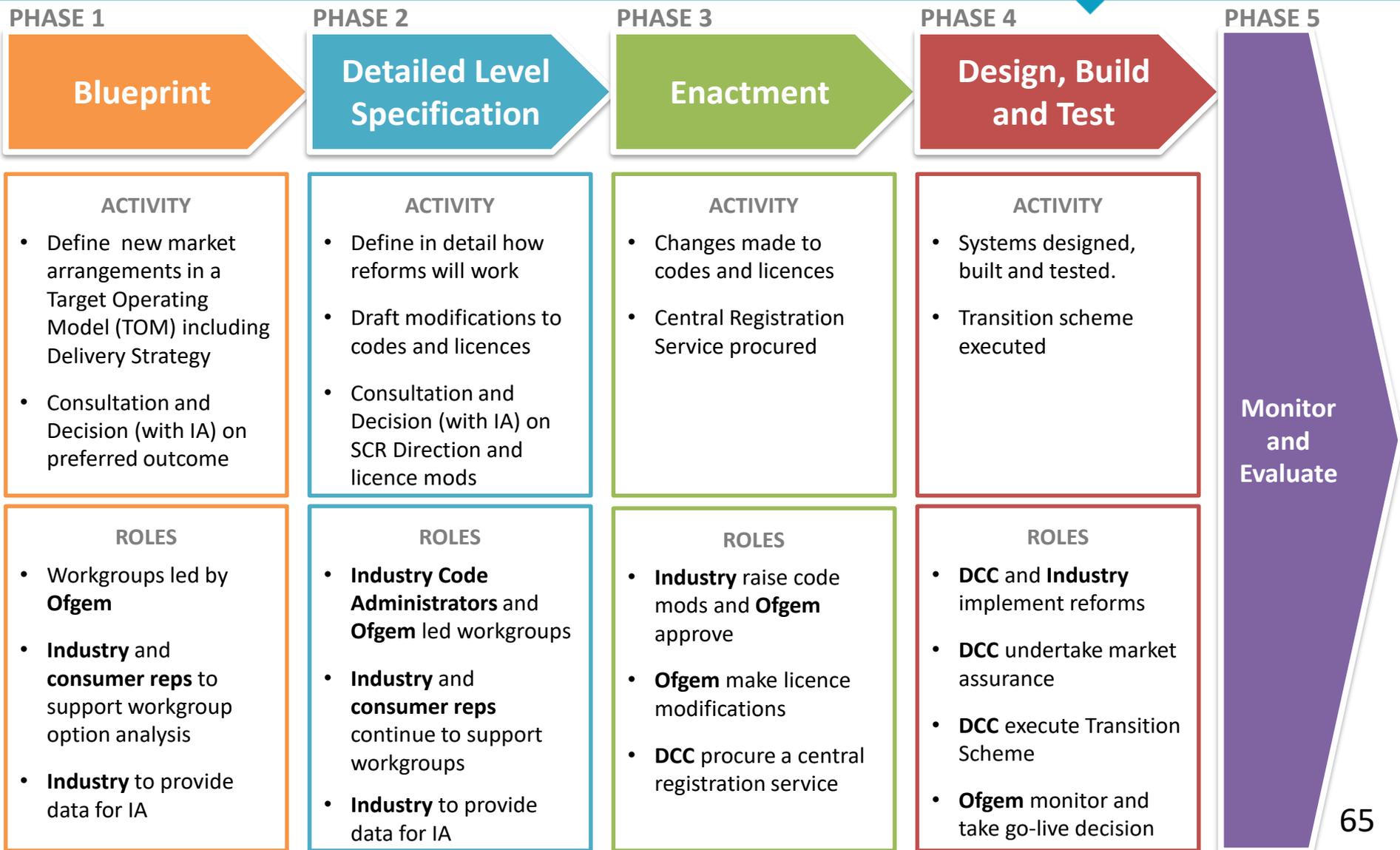
- **Speed of switching:** by introducing new systems capable of instantaneous message flows, we would potentially be enabling a situation where a consumer switches frequently from one supplier to the next, for example to take advantage of different terms offered for peak and off peak supply. This high-volume switching could be performed by the supplier, or potentially by a third party that would agree contracts with suppliers on their behalf.
- **System capacity:** A new CSS can be designed so that it can be easily scaled out (eg through addition of multiple servers) to be able to cope with the sort of increases in message flows that would be generated by very high volume frequent switching activity. The existing systems were not designed to cope with this level of change.
- **Data model flexibility:** by designing the CSS in a flexible way that allows additional data fields to be added and is not resistant to future change, we could enable innovation in relationships between consumers and suppliers. For example, the CSS could be capable of having more than one supplier registered to a single MPxN at the same time, or including new types of parties to be registered to meter points.

**These various avenues for future innovation could transform the way in which consumers interact with their energy supply. The existing systems were not designed to be flexed or scaled out in ways that would be required to facilitate these types of change.**

# Performance against programme objectives

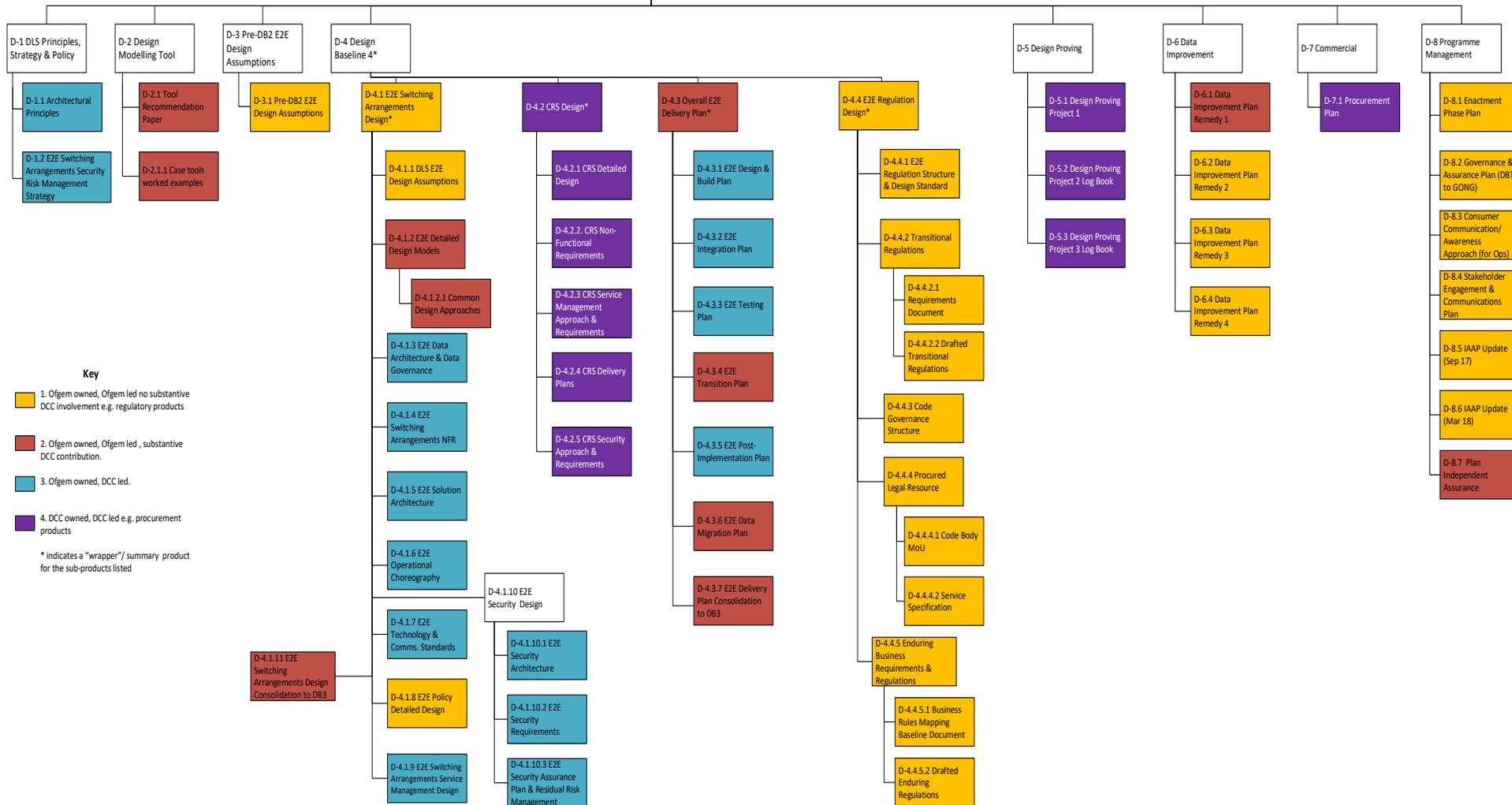
Programme Objectives		RP1	RP2a	RP2	RP3
1. To improve consumer experiences and perceptions of changing supplier, leading to increased engagement in the market, by delivering a switching service that:	a) Is more reliable, thereby reducing the instances of consumers being let down by delayed, unsuccessful or unwanted switches.	✓	✓✓✓	✓✓✓	✓✓✓
	b) Offers consumers control over when they switch, including providing the capability of doing so as fast as possible, and by no later than the end of the following day after a consumer has entered into a contract.	✓	✓✓	✓✓✓	✓✓✓
	c) Minimises any differences in consumer experiences of the switching process, to the extent that is possible, taking into account any physical constraints imposed by metering and issues relating to consumers indebtedness.	✓✓	✓✓	✓✓	✓✓
d) To deliver a simple and robust system architecture design that harmonises business processes across the gas and electricity markets where possible, and is capable of efficiently adapting to future requirements.		✓	✓✓✓	✓✓✓	✓✓✓
e) To encourage more effective competition by minimising barriers to entry for new entrants to the market, including the extent to which a successful switch may rely on the actions of an incumbent, and by having appropriate safeguards in place where this is not possible.		✓	✓✓	✓✓	✓✓
Cost-effectiveness (as per the programme's overarching objective)		✓✓	✓✓✓	✓	✗
<b>Overall assessment against programme objectives</b>		✓	✓✓✓	✓✓	✗

# DLS UPDATE

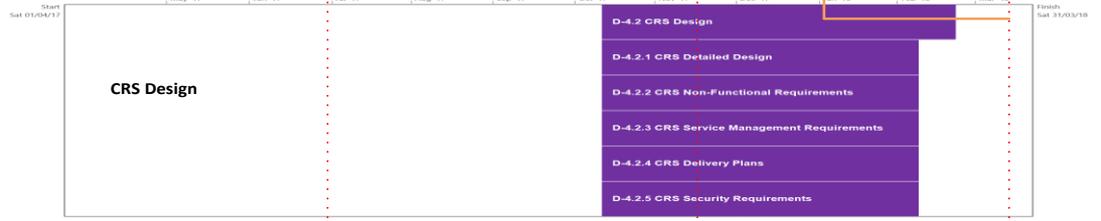
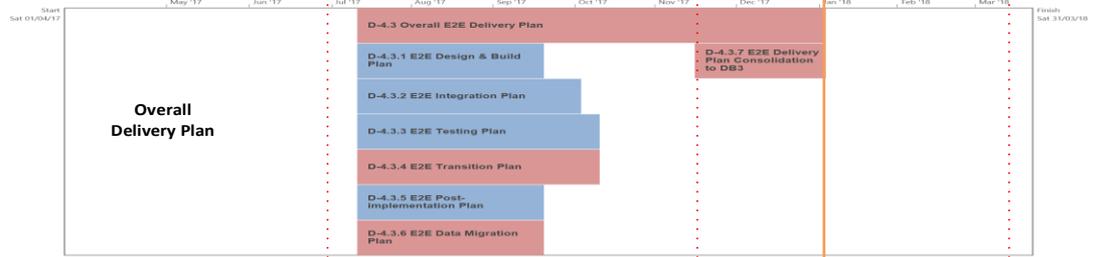
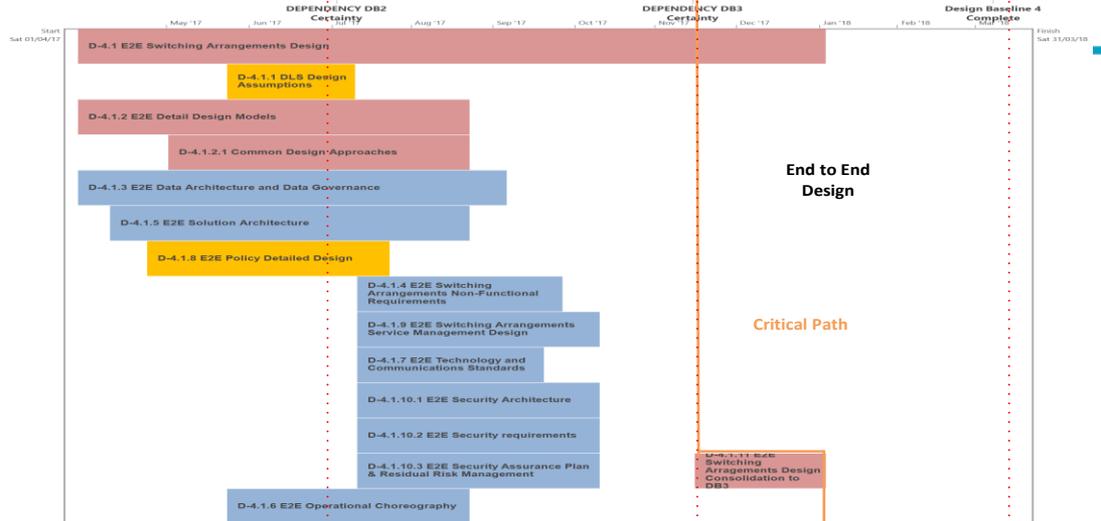


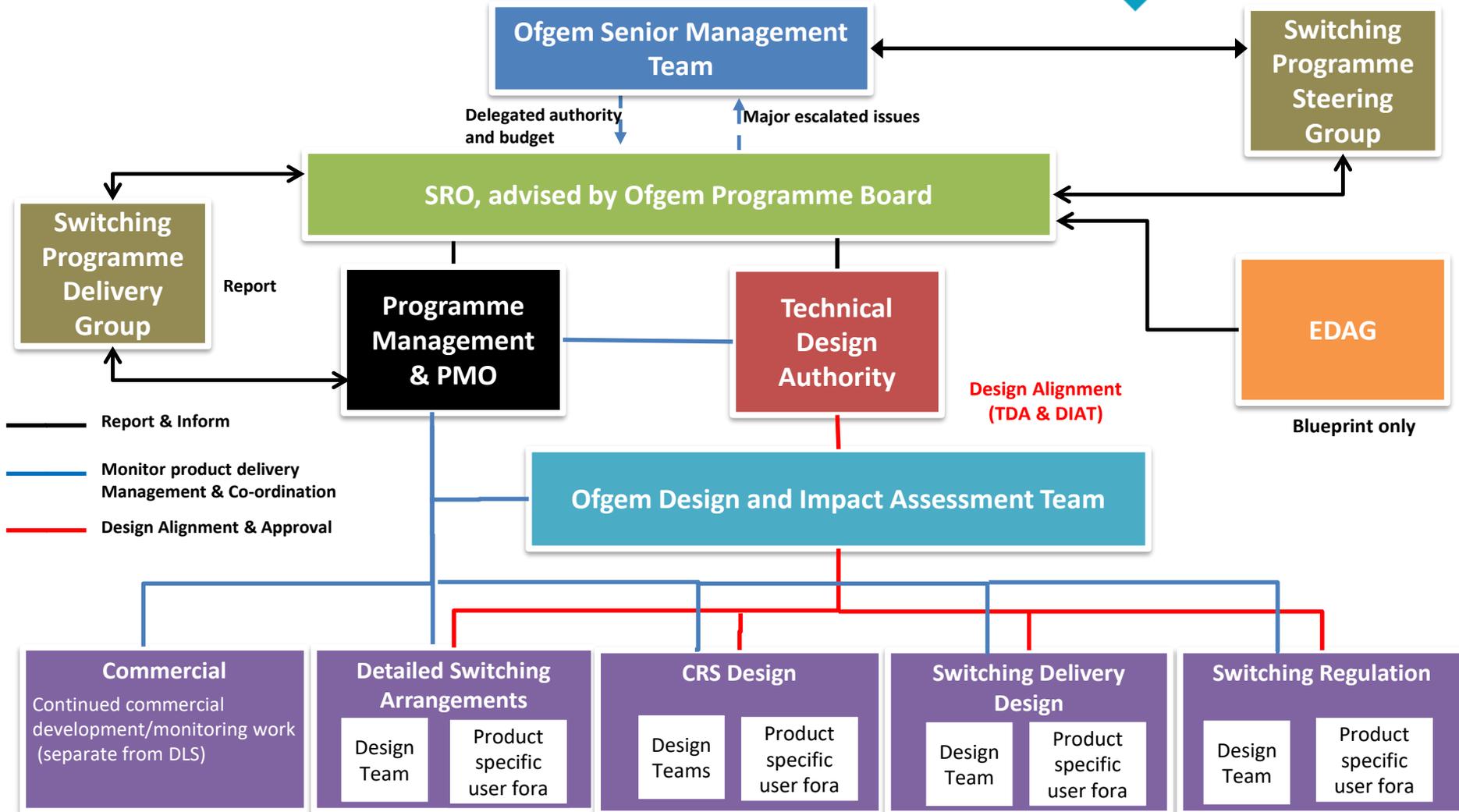
V21 – 21/03/17

DLS Phase Output



# DLS Summary Plan





**AOB**

1. Welcome any further comments on the contents of this side deck [switchingprogramme@ofgem.gov.uk](mailto:switchingprogramme@ofgem.gov.uk)
2. Continue to check and challenge RFI responses and refine analysis
3. Review proposals with SPDG on 4 July
4. Review analysis and preferred reform package with EDAG on 19 July
5. Return to Programme Board for final review on 26 July

**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.**