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Dear Rachel,

Response to consultation on Faster and More Reliable Switching

This submission was prepared by Citizens Advice. Citizens Advice has statutory responsibilities to represent the interests of energy consumers in Great Britain. This document is entirely non-confidential and may be published on your website. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

Consumers want and benefit from reliable switching in the energy market. A reliable switching system minimises erroneous, delayed and failed transfers between suppliers. Failures in switching have a significant impact on how consumers perceive the energy market. Ofgem's consumer research¹ shows the impact that reliability in the switching process has on consumer trust in the energy market as a whole. A poor switching experience can jeopardise a consumer's future engagement and reduce their propensity to switch. This dampens the competition required for the energy market to function in the best interests of consumers.

Citizens Advice supports faster switching that can be achieved in such a way that does not jeopardise the reliability of the switch. Energy UK research shows that 57% of consumers would prefer increased reliability to increased speed.² However, this research also demonstrates that consumers would prefer to switch more quickly if reliability is not compromised, with 28% of consumers more likely to switch suppliers if switching occurred next day³. It is right that Ofgem has pursued the objectives of reliability and speed in tandem through the switching programme.

¹ Results of research on unreliable switching, Ofgem, 21st September 2017
https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer_research_unreliable_switching.pdf

² Consumer attitudes to switching, Energy UK, Summer 2017

³ Consumer attitudes to switching, Energy UK, Summer 2017

Both domestic and micro-business customers will benefit from faster and more reliable switching so Ofgem is right to pursue a single system solution that covers the domestic and non-domestic markets.

We believe that the switching programme should deliver the benefits of faster and reliable switching in a way that minimises costs faced by consumers. The Energy UK research mentioned above showed that 84% of consumers would not be willing to pay more to switch suppliers within 24 hours⁴, while Ofgem estimates that 85% of the costs incurred by suppliers to deliver improved switching will be passed onto consumers.⁵ The costs of the programme are upfront and occur in the near-term, while the benefits are more difficult to determine and occur over an uncertain 18-year time horizon. As the programme could cost the energy industry as much as £446m⁶, it is crucial that costs are minimised wherever possible.

Based on the evidence presented by Ofgem, we agree that the RP2a option is most likely to maximise the net benefits of more reliable and faster switching. Ofgem estimates these to be between £169m and £1,056m over 18 years.⁷ This option has been developed through a thorough, iterative process with industry, which has enabled detailed comment at each stage of development.

One issue which only emerged towards the end of this process was the option of using UK Link to deliver the Central Switching Service (CSS). As we said in our recent response to Ofgem's consultation⁸, we think that the option of appointing Xoserve to develop UK Link into the CSS could minimise costs and should be explored thoroughly. Xoserve should certainly be able to bid into the Data and Communications Company (DCC) competitive tender for the CSS. Ofgem should publish an assessment of whether it may be less costly to industry (and ultimately consumers) and less risky for the programme to scrap the tender process altogether and appoint Xoserve directly to provide the CSS.

Otherwise, we believe the switching programme is heading in the right direction. There are some aspects of the programme that we would like Ofgem to reconsider or consider in more detail. While we set out our views in response to the consultation questions below, we particularly want to highlight the following aspects of the programme.

⁴ Consumer attitudes to switching, Energy UK, Summer 2017

⁵ Pg.82, Delivering Faster and More Reliable Switching: proposed new switching arrangements Impact Assessment, Ofgem

⁶ Pgs.92-93, Delivering Faster and More Reliable Switching: proposed new switching arrangements Impact Assessment, Ofgem

⁷ Pg.3, Delivering Faster and More Reliable Switching: proposed new switching arrangements Impact Assessment, Ofgem

⁸ Response to Ofgem's consultation on UK Link and the proposed Central Switching Service, Citizens Advice, September 2017 <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-consultation-responses/response-to-ofgems-consultation-on-uk-link-and-the-proposed-central-switching-service/>

- **We are concerned that a three-month transition window may be insufficient to demonstrate ongoing reliability of the new switching arrangements.** We support the idea of a transition window before moving to next working day switching. The transition window will allow Ofgem to determine whether moving to five-working day switching has led to any increase in Erroneous Transfers (ETs). However, ETs can take some time to identify and resolve. It is possible that the transition window may need to be slightly longer than currently proposed. We encourage Ofgem to further explore other options that would satisfy the intention to maintain reliability during the transitions. In a similar vein, we are also not convinced that some suppliers should be able to switch consumers next working day during the transition period. Allowing some suppliers to move to next-day switching during this period undermines the primary rationale for the transition period, i.e. ensuring reliability. We do not believe it is cost-efficient to establish an assurance regime for next-day switching during the very short period of the transition window. It would be more efficient for all suppliers to move to next-day switching at the same time. This approach would also make it easier to communicate the changes to consumers.
- **Further work is required to reduce the volume of ETs.** Industry should continue to improve the switching process and build confidence in switching in the years running up to the introduction of the CSS. Cleansing and improving industry data to reduce ETs is an important part of this work. The industry currently relies on the relatively slow speed of switching to identify and correct data issues. It is not in the interest of consumers or suppliers to see any increase in ETs because of the switching programme. ETs cause significant consumer detriment. We welcome initiatives such as the Erroneous Transfer Working Group (ETWG), which seeks to reduce the occurrence of ETs and improve the resolution process. The ETWG should be ambitious in identifying further means of improving industry data and reducing ETs.
- **We support Ofgem's proposals to ensure that customers can exercise cooling off rights without penalties.** Ofgem has rightly identified that consumers should be able to cool off during the switching process and return on equivalent terms to their previous supplier. Customers must be able to switch with confidence and confidence requires customers to be able to change their mind within 14 days of initiating the switch. Ofgem's approach protects rights that exist under the Consumer Rights Act 2015. We appreciate that, once the industry moves to next working day switching, these arrangements may be complex for some suppliers to manage and could require online customers to contact their original supplier by

phone. Suppliers should ensure that the cooling off process is simple and straightforward for consumers.

- **We support customer-led annulment of a switch.** We support making an annulment feature available to consumers during the transition period. There should always be an option for consumer-led annulment of the contract whenever technically feasible, in order to avoid ETs. A strong assurance regime will be required, and any misuse of the annulment feature by suppliers would be non-compliant with the Standards of Conduct. We do not support Change of Occupancy (CoO) objections by the losing supplier in the domestic market. There is insufficient evidence of the need for this feature, and no assurance that suppliers would be able to evidence such objections in a robust way within the one day window available.
- **Developing the Market Intelligence System (MIS).** The RP2a option would see the Market Intelligence System (MIS) fall out of scope of the programme. Ofgem notes that industry is now considering introducing a new gas and electricity enquiry service that would include features of the MIS. While a single, centralised enquiry service as proposed by RP3 would involve additional costs, there are also benefits, e.g. improving reliability of the switching process even further. If the MIS is to be taken forward by industry, clarity is required on how Ofgem will have appropriate oversight to ensure that this is developed to work with the new switching arrangements under RP2a.
- **The governance framework for switching should include consumer representation.** We support Ofgem creating a dual-fuel Retail Energy Code (REC). Developing a new code is more efficient than other options, such as trying to reengineer the Smart Energy Code (SEC). Given the importance of switching to consumers, the REC governance forums should include consumer representation. There is precedent from the management of other industry codes for this approach. Ofgem should explore whether the scope of the REC could be wide enough to incorporate all market participants who may deal with consumers in the switching process. Given the current role of third parties in switching and potential innovation in the market, it may be appropriate for the REC to cover some activities of Price Comparison Websites (PCWs) and Third Party Intermediaries (TPIs).
- **We welcome Ofgem publishing a detailed Impact assessment (IA).** Certain elements of the IA could be better explained and, later in this response, we query some of the assumptions made. In particular, the savings available to non-domestic consumers from switching should be updated. However, we agree with Ofgem that

the IA supports the pursuit of RP2a. We encourage Ofgem to keep the IA under review throughout the switching programme, making amends to reflect the provision of new information. We expect Ofgem to publish an updated version of the IA with its final decision in 2018.

- **We welcome Ofgem publishing a Data Protection Impact Assessment (DPIA) and agree with Ofgem's cautious approach to data protection.** We agree with Ofgem in the three main decisions made in the DPIA. We think Ofgem is correct to create the DPIA in line with the General Data Protection Regulation (GDPR) as the GDPR will be implemented during the programme. We think Ofgem has correctly identified that the combination of premise addresses with an MPxN or objection indicator constitutes personal data. As the DPIA observes, the objection indicator could reflect that a domestic consumer has a debt, information which consumers are unlikely to be comfortable to be shared without consent. In addition, the DPIA should note that, when switching smart meters, suppliers will need to take stronger action to prevent ETs to comply with the GDPR. Interoperable smart meters increase the risk that suppliers may, after an ET, collect personal data with no legal basis to do so. Similarly, suppliers who misuse CoO objections to retain consumers with smart meters will continue to collect personal data despite the consumer trying to end their contract. Taking a cautious approach should reduce unexpected costs arising later in the programme. Ofgem is right to keep the DPIA under review as the switching programme develops. Ofgem should ensure that the Information Commissioner's Office (ICO) is given opportunity to comment on the design of the switching programme before any competitive tender process commences. This will avoid unexpected costs arising at a later date.
- **We recognise why Ofgem has not published the programme's Information Risk Assessment (IRA) and welcome Ofgem establishing a stakeholder working group to discuss security.** We understand that the IRA cannot be put safely into the public domain, as this would show potential vulnerabilities in the system. However, consumers need some assurance that security is being adequately built into the CSS and communication networks. The stakeholder working group is a means to achieving this assurance. Consumers should be represented on this working group.

In conclusion, we support Ofgem pursuing RP2a. If Ofgem wants to pursue next calendar day switching with instantaneous objections at a later point, then Ofgem should consult with industry again. While the parameters in the CSS will be configurable, Ofgem's IA shows there will likely be further costs for industry and for suppliers in moving to next calendar day switching, costs that will ultimately be

recoverable from consumers. The costs of further systems changes will need to be re-evaluated alongside the potential benefits.

If you have any questions about this response, please contact Alex Belsham-Harris (alexander.belsham-harris@citizensadvice.org.uk) or Stew Horne (stew.horne@citizensadvice.org.uk).

Consultation questions

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

We agree with Ofgem that RP2a is the best value option to take forward. We are aware that Ofgem has conducted a rigorous process of data collection from a range of large, medium and small suppliers and other industry participants about the potential costs of main options under consideration. Based on the evidence in the IA, RP1 does not deliver sufficient benefits to consumers in terms of improved reliability, while the costs incurred by RP2 and RP3 to deliver near-instantaneous switching are high relative to the benefits on offer. RP2a is a reasonable compromise between cost efficiency and delivering the objectives of the switching programme.

While we support Ofgem proceeding with RP2a, we also believe that Ofgem should continue to pursue all options that will reduce the cost of the switching programme. For instance, as we highlighted in our recent response to Ofgem's consultation on UK Link⁹, Ofgem and the DCC may wish to appoint Xoserve without a competitive tender process for the CSS. While we generally support competitive tender processes, using the existing UK Link infrastructure could decrease the costs and delivery risks of the switching programme. For instance, based on the DCC Business Case¹⁰, the procurement and specification cost of the new CSS could rise to over £10 million. Many of the procurement costs would be avoided if Xoserve was appointed directly to provide the CSS based on UK Link. It may also prove to be less expensive to appoint an established industry body such as Xoserve to provide the CSS than to create a new body. Ofgem should publish an assessment of the potential cost

⁹ Response to Ofgem's consultation on UK Link and the proposed Central Switching Service, Citizens Advice, September 2017 <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-consultation-responses/energy-consultation-responses/response-to-ofgems-consultation-on-uk-link-and-the-proposed-central-switching-service/>

¹⁰ DCC Business Case for DCC activities during the Transitional Phase of the Switching Programme, DCC, 29th March 2017 https://www.smartdcc.co.uk/media/429248/dcc_switching_business_case_v3.0_redacted_clean.pdf

savings and de-risking benefits that could arise from scrapping the competitive tender process and appointing Xoserve to develop UK Link.

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

We believe that there is merit in building the CSS to include an annulment feature. When switching does not occur near-instantaneously, there should always be an option for consumer-led annulment of the contract. For instance, if a consumer who has not initiated a switch receives a “Sorry you’re leaving us” email from their current supplier, then that consumer should be able to contact the supplier and annul the switch. Annulling a potential switch may reduce the number of erroneous transfers (ETs) and reduce the amount of time and effort that consumers spend correcting errors. The annulment option should only be initiated at the request of the customer.

If losing suppliers were to misuse the annulment feature, we consider that such behaviour would be prohibited by the Standards of Conduct that apply to suppliers of domestic and micro-business consumers. Ofgem may also wish to consider introducing a more specific licence condition or code requirement to prohibit misuse of the annulment feature. This could be achieved by amending SLC 14. Were Ofgem to identify regular and deliberate misuse of the annulment feature, Ofgem should take strong enforcement action to punish that supplier for frustrating legitimate switching and to deter other suppliers from taking similar action. Ofgem should use the proposed transition window to assess how effectively suppliers use the annulment feature.

One of the potential benefits of the annulment feature is a reduction in the volume of ETs. Reducing the volume and potential for ETs is rightly a focus area for the switching programme. Cleansing and improving industry data is an important part of reducing ETs. Cleansing data may require phone-calls and letters to customers to confirm postal addresses and related MPxN details, and any costs arising from this activity should be factored into the costs created by the programme. We welcome initiatives such as the Erroneous Transfer Working Group (ETWG), which seeks to reduce the incidence of ETs and improve the resolution process. The ETWG should continue to work quickly to bring about improvements.

Poorly-handled ETs cause significant stress to customers. Consumers may need to speak to suppliers a number of times to resolve the ET, wasting time waiting in call queues, explaining the situation, being transferred to a specialist team and explaining the issue again. The Citizens Advice Extra Help Unit (EHU) has seen examples where:

- A. A customer has sought to correct an ET but the two suppliers blame each other for the error and neither take the lead on resolving the matter.
- B. A customer continues to pay Supplier A after an ET but Supplier B demands payment for energy consumed during the transferred period.
- C. A customer cancels a switch during the cooling off period but is transferred anyway and loses their annual Warm Home Discount rebate.

Reducing the frequency of ETs will be a major benefit of the switching programme.

Finally, while we welcome Ofgem publishing an assessment of how faster switching will affect data protection, Ofgem's DPIA does not adequately cover the data protection risks caused by ETs in a world of smart meter-enabled next-day switching. Interoperable smart meters increase the risk that suppliers may, after an ET, collect personal data with no legal basis to do so. The DPIA should note that, when switching smart meters, suppliers will need to take stronger action to prevent ETs to comply with the GDPR.

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

We do not support Change of Occupancy (CoO) objections by the losing supplier in the domestic market. There is insufficient evidence of the need for this feature, and no assurance that suppliers would be able to evidence such objections in a robust way within the one day window.¹¹ This could create a significant risk that domestic consumers are blocked from switching inappropriately. Where smart meters are installed this could also impact the consumer's data privacy, as the existing supplier will continue to receive smart meter data despite the consumer having indicated that they are a new tenant.

¹¹https://www.ofgem.gov.uk/system/files/docs/2017/07/edag_14_-_bpd_-_coo_discussion_paper.pdf

We agree that the CSS should invite losing non-domestic suppliers to raise an objection even where a CoO is indicated. The losing supplier may have a legitimate reason to believe that no change of tenancy has occurred at the premises in question. Non-domestic suppliers are more likely to identify a problem with a CoO if they are allowed two days to review the account, search databases such as Companies House, analyse websites that detail property transactions and contact the customer.

However, Ofgem should closely monitor whether suppliers misuse the ability to raise objections and take appropriate enforcement action if necessary. Objections should be based on significant evidence that a CoO has not occurred. Any misuse of objections, e.g. to prevent a customer switching supplier despite having no valid reason for doing so, is a breach of the Standards of Conduct. Such activity would also likely be inconsistent with the proposed REC.

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

Yes, we agree that a strong performance assurance regime is necessary to ensure that the annulment and CoO features are used appropriately by suppliers. Ofgem's research has demonstrated the detriment that consumers experience when faced with ETs. Misuse of the annulment and CoO features to inappropriately frustrate switching would cause similar detriment to customers.

To be effective, the performance assurance regime should be designed with the following in mind:

- Involve regular publication of collective and individual supplier use of the annulment and CoO features. Use of these features should form part of Ofgem's regular market monitoring.
- Published data should be presented alongside commentary from Ofgem on trends in switching and an explanation as to why suppliers might legitimately use the annulment and CoO features. This will provide context to the publication of data that otherwise has the potential to be misconstrued.
- Ofgem should carefully differentiate between valid objections and invalid ones. Some suppliers may misuse the objections option, while others may need to respond to misuse of the switching process.

- Any regular and deliberate misuse of the annulment and CoO features should lead to enforcement action.

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

Our views on competitively procuring the communications network capability are similar to our position on securing the CSS. While we appreciate that procurement of the communications network is a small part of the overall cost of the switching programme, we believe that all costs should be minimised. If leveraging existing systems may reduce the cost of the programme, then Ofgem should explore these options thoroughly. We welcome Ofgem asking Mason Advisory to look at this question. Given the report from Mason Advisory, we see merit in procuring the communication networks through competitive tender.

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

We support the idea of a transition window that enables five-working day switching before moving to next working day switching. Maintaining reliability and ensuring that consumer experience does not deteriorate at any point is crucial to the success of the programme. The transition window will allow Ofgem to determine how successful the implementation of the new switching arrangements has been and conduct an assessment of whether moving to five-day switching has led to any increase in ETs.

However, as ETs can take some time to identify and resolve, the transition window may need to be slightly longer than currently planned. We agree that too short a transition window could put reliability at risk, which could be detrimental to consumers affected and to trust in the switching process in general. Too long a transition window would reduce the speed with which consumers could benefit from next-day switching and increase the costs faced by Ofgem and suppliers, e.g. in terms of maintaining programme teams. We encourage Ofgem to further explore transition options that would satisfy the intention to maintain reliability of switching throughout the transition. We do not have sufficient evidence to recommend the correct duration of this transition window. Ofgem should also consider what critical

success factors must be met for the transition from five days to next-day switching to take place.

We are not convinced by Ofgem's proposal that suppliers should be able to choose to switch consumers next-day during the transition period. We understand that some suppliers are keen to move to next-day switching quickly and that, as the system will enable next-day switching from go-live, Ofgem does not want to unnecessarily restrain these proactive suppliers. However, allowing some suppliers to move to next-day switching during the transition window carries significant risk and undermines the primary rationale for the window, i.e. ensuring reliability of the new system. Allowing some suppliers to switch more quickly makes it difficult to assess the performance of the new system and multiplies the risk of increased ETs. It also makes it more difficult to communicate the changes and set consumer expectations effectively. We do not believe that delaying the move to next-day switching by a few months will damage competition nor do we believe it is cost-efficient to establish an assurance regime for next-day switching during the transition window. Reliability will be enhanced by all suppliers moving to next-day switching at the same time.

If Ofgem is determined to proceed with allowing some suppliers to move to next-day switching during the transition window, then we would encourage Ofgem to apply strict criteria to the customers eligible for next-day switching during this period. For instance, we support limiting faster switching to customers who are able to confirm their MPxN or complete a Customer Identification Number (CIN) test on their smart meter. This should reduce the likelihood of ETs. Ofgem should explore whether next-day switching is limited to SMETS2 meters or can incorporate SMETS1 meters as well.

The switching programme should consider how best to promote next-day switching to consumers at the end of the transition window. In banking, a campaign was launched to promote the Switch Guarantee for current accounts. The Energy UK-run Energy Switch Guarantee¹² may be a good vehicle for a similar campaign.

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

¹² <https://www.energyswitchguarantee.com/>

Yes, we agree that the regulatory backstop should require energy switches to be completed within five working days of the contract being entered into by the consumer. We support Ofgem simplifying the obligation by removing the reference to “relevant date”.

We support the regulatory backstop requirement being set at five days initially. Ofgem can then assess whether the backstop should move to next-day once the new processes are up and running. Ofgem’s drafting of the backstop licence condition should make clear the importance of the new switching window but also be sufficiently flexible to allow consumers to choose to switch on a specific date and allow suppliers to make use of the annulment and objections features.

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

Yes, we agree that Ofgem should create a new dual fuel REC. Such a code would be beneficial in collecting all switching-related requirements in one place and avoids diluting the smart meter-focused objective of the SEC. The creation of the REC is consistent with Ofgem’s general approach to improving code governance. Streamlining and rationalising code governance was identified as an objective by the CMA in its recent Market Investigation and is an existing priority for Ofgem. While we generally agree with Ofgem’s proposed approach to establishing the REC, we would urge further consideration of the following:

- Given the importance of energy switching to consumers, the REC governance forums should include consumer representation. There is precedent from other industry codes for this approach.¹³
- Ofgem should explore whether the scope of the REC should be wide enough to incorporate all market participants who may deal with consumers in the switching process. Given the current role of third parties in the switching and potential innovation in the market, it may be appropriate for the REC to cover the activity of, for example, Price Comparison Websites (PCWs), non-domestic brokers and other aggregators and innovators involved in consumer switching.
- As new business models emerge, Ofgem should ensure that the REC applies to, and is amended to facilitate, new types of companies involved in switching.

¹³ Citizens Advice sits on the panels of The Balancing and Settlement Code (BSC), Uniform Network Code (UNC), the Connection and Use of System Code (CUSC) and Smart Energy Code (SEC) panels, and the Smart Meter Installation Code of Practice (SMICoP) Governance Board (SGB).

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

Yes, though as stated in our response to Q8 above, Ofgem should explore whether the scope of the REC should be wide enough to incorporate all market participants who may deal with consumers in the switching process, both now and in the future.

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

Yes, we believe it is sensible to amend the DCC licence as proposed by Ofgem. The current DCC obligation is to procure a new system solution for switching. However, there will be a transition period where the newly-built system has gone live but is still in testing. It makes sense for the DCC to retain responsibility for the system during the transition period before handing over to the relevant REC governance bodies. The longer the period in which the DCC retains responsibility for the CSS, the more pressing the need for Ofgem to move to ex ante price control of those activities.

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

Yes, we agree that transitional regulatory requirements are necessary and these should be contained in the REC.

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

We understand that Ofgem's legal advice is that Ofgem's new powers to pursue a Significant Code Review (SCR) do not allow Ofgem to pursue a set of code changes over time as part of a single programme. This being the case, we understand that Ofgem proposes to rely on the traditional code change processes to make some necessary preliminary changes to the codes before pursuing a single comprehensive SCR at a later date. We support this approach, but the code administrators should pursue these preliminary code changes vigorously and not allow any suppliers to unduly delay changes.

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

No, we have no specific comments on the indicative timetable for the new governance framework. The overall programme timetable is challenging, given the development of the CSS and communications network, the new governance framework and the scale of system development required across the industry. We support steps that Ofgem can take to keep the project on time and on budget. We urge suppliers and other stakeholders to do all they can to keep the programme on schedule. To this end we support Ofgem's proposals to place requirements in the REC on market participants to help deliver the switching programme.

Impact assessment questions

Question 1: Do you agree that our assessment of industry and public sector costs, including our approach to managing uncertainty, provides a sound basis for making a decision on a preferred reform package?

We agree that Ofgem has produced an IA that provides a sound basis for making a decision in favour of the RP2a option. The IA shows that RP2a will deliver sufficient direct and indirect benefits for consumers and competition to justify the significant costs involved in developing a new switching system. While the IA shows a net benefit to pursuing RP2a, Ofgem should continue to seek ways to reduce the overall costs of the programme.

The IA could be improved and certain elements of the IA could be better explained. We query some of the assumptions made in the IA in the answers that follow. We encourage Ofgem to keep the IA under review throughout the switching programme, making amends to reflect the provision of new information. We expect Ofgem to publish an updated version of the IA with its decision in 2018.

Ofgem rightly acknowledges that the future of the energy sector is very uncertain. There is also uncertainty around the impact of the proposed changes to switching reliability and speed. Given that the programme involves developing systems to improve future switching, many of the costs are incurred in the near-term and are therefore more certain and easier to estimate than the benefits occurring out to 2035. While the uncertainty of the costs and benefits should not be used to prevent the switching programme progressing with RP2a, all potential impacts on the programme should be noted in the IA. On this basis, Ofgem's IA should also consider the following variables:

- **The introduction by Government of a price cap for Standard Variable Tariff (SVT).** The Government has announced its intention to introduce a temporary price

cap for all SVT customers. The Government proposes that this price cap would apply until 2023 and so would overlap with the reforms introduced by the switching programme. While Citizens Advice supports a temporary price cap, it is possible that such a cap will dampen incentives to switch in the short- to medium-term. Once the details of the cap – including its scope, timeframe and level – are confirmed through the legislative process, Ofgem should assess how the intervention will affect switching rates. It is welcome that the IA sensitivity analysis has already considered how changing the savings available from switching – another possible consequence of a price cap – will impact the programme. The sensitivity analysis suggests that even halving the available savings on offer still justify the costs of the programme, demonstrating that switching is not solely dependent on the size of the available saving.

- **The PPM switching rate following the removal of the temporary price cap and as smart PPMs are rolled out.** Ofgem assumes that, throughout the lifetime of the CSS, 17% of switches will be from PPM customers.¹⁴ This assumption is based on 2016 switching data, i.e. before the introduction of the temporary price cap for PPM and before the roll-out of smart PPMs. In the next iteration of the IA, Ofgem should state its assumptions on how PPM consumer behaviour will be affected by the existence and subsequent removal of the price cap and by the roll-out of smart PPMs. PPM switching rates may be simultaneously dampened by the PPM price cap and increased by the greater savings available and increased competition brought about by smart PPMs. The IA also assumes that the savings on offer to PPM customers until 2035 will remain at £77, the current savings below the price cap. It may not be reasonable for Ofgem to assume that, following the removal of the price cap and the roll out of smart PPMs, switching rates are at 2016 levels while available savings are at 2017 levels. These assumptions should be revisited to take into account the effects of the PPM price cap.
- **The number of suppliers in the energy market.** Ofgem rightly adjusts its estimate of supplier costs to reflect the costs incurred by those suppliers that did not respond to its Request for Information (RFI). However, Ofgem does not adjust its estimate of this cost to reflect the number of suppliers entering the market. Each of these new suppliers will incur costs building systems to interact with the CSS. While Ofgem cannot predict with any certainty how many new entrants will enter the market, Ofgem cannot assume that the current number of active suppliers will be the only ones impacted by the costs of the switching programme. Given the length of time it takes to acquire a supply licence and Ofgem’s central role in that process,

¹⁴ Pg.17, Delivering Faster and More Reliable Switching: proposed new switching arrangements Impact Assessment, Ofgem

Ofgem should at least have a view as to how many suppliers will be in the market in 2019.

- **The continuing dual fuel nature of the energy market.** Throughout its analysis, Ofgem assumes that dual fuel customers will remain an important part of the British energy market out to 2035. However, the government is considering how to decarbonise heating in the home, e.g. moving away from natural gas. It is possible that towards the end of the period under analysis the British energy market may have tilted towards the use of low-carbon electricity in heating. While it is difficult to estimate the effects of electrification and decarbonisation of heating with any certainty, Ofgem should consider what impact this might have on the savings available from switching.

Finally, the IA assumes that there is no cost for RP2a for PCWs. This seems optimistic. PCWs are an important part of switching, accounting for 51% of all switches in 2016.¹⁵ The switching programme will require changes to be made to PCW systems and processes that interact with suppliers. Such changes will incur costs. More broadly, we believe that Ofgem should consider how third parties such as PCWs are regulated. For instance, the CMA's recent report on Digital Comparison Tools (DCTs)¹⁶ recommends a combination of activity-based and principles-based regulation.

Question 2: Do you agree that we have selected the appropriate policy option around objections, cooling off, meter agent appointment and MCP ID for each reform package?

Yes, we agree in general that Ofgem has selected the appropriate policy options. We have provided views elsewhere in this consultation response on the policy option chosen for objections. We agree with Ofgem that consumers should be able to exercise cooling off rights during the switching process. Customers must be able to switch with confidence and confidence requires customers to have the ability to change their mind within 14 days of initiating the switch. This right exists under the Consumer Rights Act 2015.

We support Ofgem's proposal that customers who exercise cooling off rights should be able to return to their previous suppliers on no worse than equivalent terms. It would be preferable if consumers made an active choice as to the terms and

¹⁵ Pg.24 Retail Energy Markets in 2016, Ofgem, 3rd August 2016
https://www.ofgem.gov.uk/system/files/docs/2016/08/retail_energy_markets_in_2016.pdf

¹⁶ Digital Comparison Tools Market Study, CMA, 26th September 2017
<https://assets.publishing.service.gov.uk/media/59c93546e5274a77468120d6/digital-comparison-tools-market-study-final-report.pdf>

conditions on which they return to their previous supplier. The rules should be clear that a supplier will only have discretion as to what constitutes equivalent terms where the supplier cannot contact the customer to agree new terms. Ofgem should also ensure that consumers who initiate a switch and exercise their right to cool off during the transition window are not placed on higher SVT or default FTC rates. The detailed rules around cooling off should be considered as part of the programme's regulatory workstream.

Consumers' rights around cooling off should be communicated clearly by suppliers. These rights should be outlined in the licence conditions, backed up in detail in the REC and expressed in easy to understand language through customer-facing material such as the Energy Switch Guarantee.

Question 3: Do you agree that our assessment of the direct benefits of the reforms, including the various assumptions that we have adopted, provides a sound basis for making a decision on a preferred reform package?

Yes, we agree in general that Ofgem has correctly identified the direct benefits of the various reform options. It is welcome that Ofgem has sought to incorporate the time savings that reform will produce for consumers. We believe that Ofgem has made reasonable assumptions about how faster switching will reduce the amount of time that consumers spend thinking about and progressing a switch.

However, we are concerned that aspects of the IA may overstate some of the direct benefits available to consumers. While we agree with Ofgem that the IA supports progressing with RP2a, the high near-term costs of the programme means that the net benefits to consumers should be as accurately captured as possible. We encourage Ofgem to revisit the following aspects of the IA:

- **Micro-business switching savings in a changing market.** The IA suggests that there is a £348 saving available to a micro-business for switching electricity supplier. This is based on RFI data sourced in 2014. The actual savings available to micro-business energy customers are almost certainly different in 2017 to the information provided in response to the RFI. The non-domestic sector has changed significantly in recent years, for example following the CMA investigation, the move away from auto-renewals and changes in wholesale prices. While non-domestic savings from switching make up a small part of the benefits case, Ofgem should source more up-to-date information about these savings.
- **Customers avoiding SVT, or default fixed term contracts (FTCs), because of faster switching.** A small part of the benefits case for reform in the IA is that even

engaged fixed term contract (FTC) consumers temporarily fall onto SVT if they switch at the very end of a FTC.¹⁷ We believe that Ofgem has already introduced protections to limit the frequency with which engaged FTC customers experience the increased costs of a SVT. SLC 24.9 and SLC 24.10 effectively ensure that consumers who initiate a switch before their FTC ends must continue to be supplied at the FTC rate until the switch completes. In some cases, the slowness of the current switching process means that consumers that switch at the end of their FTC could potentially benefit from their old FTC rates for an additional 20 working days. This effect is only beneficial to consumers when energy prices have changed so that current FTCs are more expensive than FTCs taken out one year previously. Ofgem should revisit how the existing protections of SLC 24.9 and SLC 24.10 effect the £35.26m saving for engaged customers¹⁸ outlined under RP2a. Ofgem should also analyse how the new rules to allow suppliers to roll customers onto a new FTC instead of SVT will affect the savings to be gained from faster switching.

- **Assumptions about engaged consumers switching.** Ofgem assumes that (1) engaged consumers will switch FTC 10.7 times over a 15-year period, (2) 60% of switches are executed after the FTC ends and (3) daily savings of £0.72 are available to each dual fuel customer, based on the assumption that the current SVT – FTC differential remains the same for the next 15 years. As Ofgem recognises, e.g. in the sensitivity analysis, these assumptions may not be reasonable if competition increases and/or action is taken to cap the prices that some customers face. It is also possible that market fluctuations may occur where FTCs are more expensive than SVT. Each of these assumptions may be reasonable, but it is not clear from the IA how the assumptions were reached. The next version of the IA should make clear the basis for Ofgem forming these assumptions.
- **The cost savings of creating a Consumer Enquiry Service (CES).** Ofgem assumes that the CES can be procured in a manner that leads to a cost saving. We would like to understand how Ofgem has calculated these savings. We suspect that parts of the CES could duplicate existing arrangements. For instance, the Citizens Advice consumer service can and does provide consumers with MPxN information, and has existing referral arrangements in place with suppliers. This service can also provide consumers on any issues with their switch which don't relate to the MPxN. Establishing the CES could also add further complexity as some consumers will

¹⁷ Pg.66 Delivering Faster and More Reliable Switching: proposed new switching arrangements Impact Assessment, Ofgem

¹⁸ Pg.69 Delivering Faster and More Reliable Switching: proposed new switching arrangements Impact Assessment, Ofgem

continue to be passed onto their Distribution Network Operator (DNO) or Gas Distribution Network (GDN) for further assistance.

Question 4: Do you agree that our illustrative analysis of the indirect benefits provides a reasonable assessment of the potential scale of the savings that could be made by consumers through increased engagement in the market?

Yes, in general we agree that Ofgem has made a reasonable assessment of the indirect benefits. We have noted some areas in response to Q1 where further uncertainty around future savings could be better explained in the IA.

Ofgem is right to highlight the rebound effect¹⁹ of consumers responding to the lower prices achieved through switching by increasing consumption of gas and electricity. Such an effect may not reduce the potential consumer benefits of switching, e.g. if the additional consumption increases consumer utility by at least as much as the savings assumed by Ofgem. Further analysis should be undertaken to understand how consumers would respond to lower bills and the impact that this might have on consumption and, consequently, the environment.

Question 5: Do you agree with our assessment of the wider benefits of our reform proposals?

Yes, in general we agree that the switching programme could support innovation, competition and engagement in the energy sector. However, technology is constantly evolving and it is possible that, in the longer-term, whatever technology is chosen for the new systems may not promote innovation. This uncertainty about technological change should not preclude the procurement of a system based on technology available today. We understand that the DCC is undertaking an assessment of the technologies that could be used to build the CSS.

Question 6: Do you agree that our assessment of the net impacts for consumers provides a sound basis for making a decision on a preferred reform package?

Yes. We have highlighted in response to the questions above where improvements can be made to the IA in relation to certain aspects of the net impacts for consumers. While these changes will strengthen the accuracy of the benefits case, we do not think they will change the net positive effect of the preferred reform package for consumers.

¹⁹ Pg. 78, Delivering Faster and More Reliable Switching: proposed new switching arrangements Impact Assessment, Ofgem