Rachel Clark
Switching Programme
Ofgem
9 Millbank
London
SW1P 3GE

Email to: Switchingprogramme@ofgem.gov.uk

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Delivering Faster and More Reliable Switching: proposed new switching arrangements

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We continue to support Ofgem's intent to simplify and harmonise the gas and electricity switching arrangements where this is done in a manner which delivers value for money for consumers. They rightly expect that their switch should complete more reliably, and more quickly, than it does now.

We continue to have significant reservations about the implementation of a Centralised Switching Service (CSS), and the significant development, transitional and operational costs associated with this Service. It is not evident that the CSS would deliver the reliability improvements that underpin the Impact Assessment either in a manner, or at a cost, that could not be achieved through enhancements to the current system architecture. Our experience of large scale system implementations such as Nexus and the Smart DCC systems shows that these projects usually deliver later than expected, and that the costs escalate far beyond original projections. These are unnecessary costs that consumers ultimately bear. The increased risk associated with implementation of a CSS has not been sufficiently accounted for in the Impact Assessment, or in the decision to progress reform package RP2a.

It is clear that enhancing the quality of address data used in the switching process will improve the reliability of switching, reducing the number of erroneous and delayed switches. What is not so clear is that RP2a, and the introduction of a CSS, is the best or most effective way to tackle this issue. The proposed single address provider is separate to the CSS itself, and so could be designed to interface with the UK Link and MPAS systems and provide better quality address data to those systems. We believe this would achieve the address data improvement that delivers improved switching reliability, but without the need for a costly CSS.

Improvements to the speed of switching, and the ability to switch during cooling off, could also be made within the existing system architecture. MPAS already supports next

working day switching, and UK Link could be enhanced to provide the same service. Small changes could be made to the existing gas and electricity switching processes to improve the speed of switching, align the gas and electricity processes, and deliver the associated benefits detailed in the Impact Assessment.

Not only are the direct reliability benefits associated with a CSS unclear, but there is little, if any, evidence to show that a CSS would simplify the switching arrangements, or reduce barriers to entry. The CSS would not replace the current UK Link and MPAS systems, or the need for suppliers to interact with them. Introduction of a CSS, and potentially a new communications network to enable parties to interface to it, further complicates the landscape and increases the complexity of the interactions that enable consumer switching.

Consumers should have the ability to switch more quickly than they do now, and if they choose, during the cooling off period. However, many consumers value the cooling off period and the security and peace of mind that it offers. The proposals for consumers to be able to 'switch back' to their previous terms and conditions will provide some reassurance, but require consumers to drive that process. This could dissuade some consumers from engaging in the first place. Domestic consumers must retain the ability to be able to choose to switch at the end of the cooling off period if they wish, and suppliers should not be penalised for enabling consumers to make these choices.

In summary, EDF Energy continues to believe that incremental changes to the existing systems, additional to those proposed in RP1 (in effect an 'RP1a') will deliver Ofgem's intent. This form of reform package, based on the existing solution architecture will:

- Reduce the overall cost of the programme.
- Enable benefits to be delivered earlier as they would not be reliant on procurement and implementation of a CSS.
- Avoid the significant levels of risk associated with developing and implementing new systems and processes.
- Improve address data quality by linking the single address provider to the existing UK Link and MPAS systems.
- Enable harmonisation of processes across gas and electricity to enhance the dual fuel switching experience.

The benefits that RP2a delivers over and above this are minimal and do not justify the level of additional delivery risk and investment required. At a time when price caps are being discussed and the price of energy is under increasing scrutiny we need to be bearing down on any unnecessary costs. Any investment that we make on behalf of consumers must deliver real and direct benefits to them.

We encourage Ofgem to consider an alternative approach which we believe would achieve the speed and reliability benefits that underpin the business case for reform, but do so at a reduced cost, in shorter timescales and with a lower level of risk.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Paul Saker on 07875 110937, or myself.

I confirm that this letter and its attachment, with the exception of the information marked as confidential in the addendum, may be published on Ofgem's website.

Yours sincerely,

Paul Delamare
Head of Customers Policy and Regulation

Attachment

Delivering Faster and More Reliable Switching: proposed new switching arrangements

EDF Energy's response to your questions

CHAPTER: Two

Q1. 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 do not believe that a comprehensive case has been made that RP2a provides the best value option to reform the switching arrangements for consumers. Significant levels of uncertainty around the costs and benefits of this reform package mean that we are not currently able to support the progression of RP2a. Further work is required to gain certainty over the costs, and provide clarity on how the reliability benefits associated with RP2a will be secured. Only when this is provided do we believe that it will be possible to make a final decision – until that point we believe that RP1, or a variation on that reform package, should continue to be considered as a viable option.

It is not clear that RP2a will deliver the increased reliability that underpins the business case for progressing this option in a manner, or at a cost, that cannot be achieved through the existing registrations systems. Chapter 6 of the consultation articulates the benefits that will be gained through improving address data quality, aligning this across the two fuels, and maintaining it on an ongoing basis. We agree that these measures will be beneficial to switching reliability; we also believe that it is possible to deliver these within the current system architecture.

We do not agree with the underlying assumption that these benefits can only be gained through implementation of a CSS. It is not clear why the proposed new single address database could not be linked to the existing registration systems to provide the same benefits. It is not clear how a CSS will provide additional benefits in terms of reliability. The proposed next working day switching timescales under RP2a should also be achievable through the existing systems. We do not believe that an approach based on the existing MPAS and UK Link systems has been fully considered. In our view this approach could deliver the same material benefits as RP2a, but at a lower cost to consumers, and with a much lower degree of implementation risk.

It is not clear how the risks associated with the implementation of new systems and processes and potentially a new communications network, have been accounted for in the Impact Assessment. While assumptions about the level of post-implementation support are documented in the assumptions log, these seem to have been applied equally to all of the reform packages. This does not reflect that post-implementation issues are much more likely to arise from new systems, and are also likely to take longer to resolve. The

lower risk profile associated with use of the existing UK Link and MPAS systems does not appear to have been fully accounted for in the Impact Assessment.

We are concerned by the use of a 15 year operational period as used in the Impact Assessment. This period seems ambitiously long, and it is not clear what assumptions it has been based on. The impact on the NPV for each of the reform packages should this period be shortened has not been provided. We would like to see further information on the payback period for each of the reform packages in the low, high and central cases. This could provide a different perspective on the various options, based on the level of certainty relative to the period required to recover the investment being made.

While the Impact Assessment has endeavoured to account for uncertainty around industry costs, the level of uncertainty is more significant than is reflected in this document. Costs provided by industry parties in response to the two RFIs that took place this year were based on a very high level design, and a significant number of design assumptions. As the next level of design has been developed through the Detailed Level Specification (DLS) phase a number of these assumptions have been challenged, and the level of confidence in the costs that we and other parties provided has reduced. Feedback from these parties, for example through the Design Forum meetings, indicates that this is a common issue across many market participants.

The NPV ranges provided for RP1 and RP2a in the Impact Assessment are broadly similar. RP1 has the potential to deliver the same benefits as RP2a in the most optimistic assessment of the NPV, and has a higher minimum NPV in the most pessimistic assessment. The NPV range for RP1 is likely to have a higher degree of certainty, for the reasons detailed above. Despite this, the proposal is to progress RP2a largely on the basis that it better meets the programme objectives. This assessment is not as clear cut as it is shown in Table 2 of the consultation document, and we would question whether this alone is sufficient to progress a reform package which has a higher degree of risk associated with it.

The content of Table 2 states that RP1 will not deliver improved reliability. While this may be true of the limited scope of RP1 set out in the RFIs, we contend that it should be possible to deliver most, if not all, of the reliability benefits of a single address database without the need for a CSS. Table 2 also indicates that RP1 would not offer consumers more control over when they switch, or enable next working day switching. Again we believe that it is possible to achieve these changes using the existing registration systems – for example MPAS already supports a next working day switching capability.

RP1 is not shown as delivering a simple and robust architecture while this would apparently occur under the reform options that involve a CSS. RP2a is also shown as minimising barriers to entry for new market participants. It is not clear how either of these can be the case when the proposal is to introduce new interfaces with a CSS system, possibly using a new communications network, while retaining the current interfaces with the UK Link and MPAS systems. These will be required for managing settlement data, and for other purposes such as agent appointment.

Were the CSS to take on more of the functionality of the UK Link and MPAS systems then there would be a clearer argument that this was simplifying and harmonising industry arrangements. Just moving the switching functionality, which is a fraction of the scope of the current systems, actually seems to increase market complexity rather than reducing it, and creates a further barrier to entry for new suppliers. The post-implementation solution architecture set out in Figure 6 in the consultation document is certainly not simpler than the current one. To state that RP1 does not provide simplicity relative to the other options is not an accurate assessment.

We recognise that the current registration systems are not necessarily flexible, easy to change, or able to cope with potential future changes to the market. At the same time, any such changes are unlikely to be restricted purely to the switching process and the scope of a CSS. They are likely to have wider impacts, for example to the settlement processes managed by the UK Link and MPAS systems. Implementation of a CSS, without a wider reform of the other major industry systems, is unlikely to facilitate future market reforms on its own. The case for choosing RP2a on the basis that it can better adapt to future requirements is less clear than it is shown in Table 2.

EDF Energy continues to believe that the business case for implementing a CSS, especially one that is as 'thin' as is proposed, is not clear. The financial benefits of RP2a are shown to be broadly similar to those that could be achieved by RP1, and the assessment of these options against the programme objectives is subjective. We continue to encourage Ofgem to seek a cost effective solution that will enable consumer benefits to be delivered quickly, which minimises unnecessary cost and has a low level of implementation risk. We believe that RP1, enhanced to provide the reliability benefits of a single address database, is the appropriate solution.

CHAPTER: Three

Q2. 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.

Erroneous switches are a poor consumer experience and when they are identified after the switch has completed they are complex and time consuming to resolve. Reducing the switching timescales, including the objection window within which customer requested objections could be raised, will make it more difficult to prevent erroneous switches before they complete. Anything that helps to reduce the incidence of erroneous switches is a welcome step. In some cases switching timescales will be too short to use the annulment function to prevent the erroneous switch. However as noted in our response to Question 7, there will be a significant number of switches that take place over longer timescales. In these cases the annulment feature will deliver significant benefits.

A customer could identify a switch that they did not initiate through communication from either the old or the new supplier. As a result they are as likely to contact their current

supplier as they are the supplier that has initiated the erroneous switch. Directing that customer, who has not entered into a contract with the new supplier, to contact them to cancel the switch, is not appropriate. It could also result in delays that make it more likely that the erroneous switch completes. Consumers should be able to contact their existing supplier to prevent an unwanted switch from progressing.

Our estimate of the number of occasions over the past 12 months when we would have used the annulment feature is provided in an addendum to this response which should be treated as confidential.

Q3. 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 agree that the CSS should always invite the losing supplier to raise an objection, even where the Change of Occupancy (CoO) indicator has been set by the gaining supplier. This simplifies the design of the CSS by aligning the processes for domestic and non-domestic consumers. It also means suppliers will have the ability to verify the CoO indicator and prevent switches from occurring when it has been set incorrectly.

The limited timescales within the shortened objection window will restrict the ability of a losing supplier to verify the accuracy of the CoO indicator. However, we believe that there are steps that could be taken, even within this limited window. For example, where a switch has been objected to recently and we receive a new request with a 'True' CoO indicator, this could imply that the switch has been re-submitted with the indicator set, in order to bypass the objection process. Having a mechanism in place to detect these would allow us to verify the CoO and reduce any potential misuse of the indicator.

Our estimate of the number of occasions over the past 12 months when we would have raised an objection where the Change of Tenancy (CoT) flag had been set is provided in an addendum to this response which should be treated as confidential.

Q4. Do you agree that use of the annulment and CoO features should be backed by a strong performance assurance regime? Please comment on ways in which such a regime could be made most effective, and back up your response with evidence.

While we agree that the annulment and CoO features should be included in the design of the new switching arrangements, we recognise that these could be subject to misuse. These tools should only ever be used where the losing supplier legitimately believes that the consumer has not chosen to switch, or where they have clear evidence to suggest that the CoO indicator has not been used legitimately. They should not be used to artificially extend the objections window, or to frustrate a switch that a consumer has legitimately chosen to undertake.

A strong performance assurance regime will be required to identify and penalise misuse. Such a regime may also need to cover other aspects of the switching arrangements, in order to ensure suppliers are adhering to their obligations under the proposed Retail Energy Code (REC). We have seen the benefits of a performance assurance regime under the Balancing and Settlement Code (BSC), and this approach has started to extend across other codes.

This regime must start with robust reporting. It must be possible to identify from the CSS all uses of annulment, of the CoO indicator on a switch request, and of objections raised where this indicator has been set. This reporting should enable those suppliers that appear to be using these features more frequently than others to be identified. This would enable a targeted audit of those suppliers, using a sample of switches, to determine whether they are using those tools legitimately.

In addition to this targeted approach, it may also be appropriate to undertake a similar audit process across all suppliers on a regular basis. This would provide oversight over those suppliers that are not seen as 'outliers' in the reporting, but which may still be misusing these features. This would be a similar approach to that used under the BSC, and the Smart Energy Code (SEC) security arrangements. It would need to be ensured that such an approach did not incur unnecessary costs. However, it may be the case that such costs are seen as being justified if they help to provide consumers with confidence in the integrity of the switching process.

Where a supplier that wishes to object, even though the CoO indicator has been set, they must provide clear evidence to substantiate their view that a CoO was not actually taking place. Guidance would be required on the sort of evidence that would be deemed to be sufficient in these circumstances. When it comes to assuring that the CoO indicator has been set correctly, any gaining supplier is reliant on the honesty of the consumer when they indicate that they are a new occupier. Suppliers can only ask consumers whether this is the case; requiring them to provide evidence to prove this would create a barrier to switching. Any audit on the setting of the CoS indicator could only check that the supplier is accurately reflecting the input provided by the consumer when they signed up.

A strong performance assurance regime will need to have the right penalties in place to discourage misuse. This might start with 'naming and shaming' at one end of the scale, with more significant penalties for continued or large scale abuse. Such penalties could include losing the right to submit new switches for a period, losing the right to annul losses, or to object to those losses that have the CoO indicator set. Any penalty regime would need to be proportionate to the impact on consumers.

CHAPTER: Four

Q5. Do you agree with our proposal to require DCC to competitively procure the communications network capability required to deliver the new switching arrangements?

EDF Energy agrees with the proposal to require DCC to competitively procure the communications network capability in the event that RP2a is progressed.

The CSS will be an enduring market role; given the pace of IT advances, it is important to take this opportunity to consider all possible options, and ensure we obtain maximum benefit for consumers. If the procurement was not open to competition we might miss the most cost effective and efficient options for the long term, as we focus on current systems that appear to be low cost now. As noted in our response to the recent UK Link consultation, it must be ensured that any investment in a CSS now does not become 'regret spend' in the coming years, and that any solution will remain in place long enough to pay back any investment in it.

Open competition allows for:

- Collaboration proposal opportunities for our existing communications network providers.
- Introduction of secure internet-based connectivity options from new providers.
- Encouragement of innovation, including the existing communications network providers, who would all be given an opportunity here to consider and propose uplifting their networks to internet-based connectivity or other technology (thus potentially also benefiting the as-is scope of industry interaction that they facilitate)

It is important to consider whether the potential providers can meet the non-functional requirements and SLAs that will be required of switching under a CSS. If we do not have an open competitive procurement, then by default we are relying on the nominated bidder (or the closed pool of nominated bidders) to have highly resilient platforms. The current network communications providers generally meet current industry SLAs; however, this does not guarantee that they all have the right baseline technical platform that can be uplifted to meet the CSS role requirements. Running an open competition means we have more control over de-risking the procured service performance.

At the same time, we also recognise that there are likely to be benefits to be gained from using existing communications network providers. As a supplier, we already have to support multiple communications networks, not only the Data Transfer Network (DTN), but also the UK Link Network (Information Exchange (IX)) and the DCC User Gateway (Gamma). Use of an additional communications network provider could increase complexity and cost, depending on the nature of that network.

While we understand the rationale for appointing DCC to manage the procurement process, industry parties, including suppliers, need to be engaged in that process to ensure that any solution meets the needs of the industry as a whole. We recognise that an active role for industry parties in the procurement process is unlikely to be possible. It should, however, be possible for industry to have a significant input into the evaluation criteria. It is also vital for members of the evaluation team to have significant and relevant industry experience.

We welcome the engagement around procurement that has occurred to date through the Commercial Forum, and we look forward to this collaborative working between industry, DCC and Ofgem continuing through the procurement process.

CHAPTER: Five

Q6. 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.

The proposal to have a three-month transition window implies a level of uncertainty about the achievement of the reliability benefits that underpin the business case for reform of the switching arrangements.

It is noted in the consultation that it is Ofgem's view that it will be difficult to test the impact of the reliability improvement measures accurately until the new arrangements are operational. Improved switching reliability is the key driver for the benefits of switching reform, both directly through reduced errors, and indirectly through increased engagement in the energy market. To say that we will not know whether we get the reliability improvement that is anticipated until after implementation is unacceptable, especially given the level of investment being made.

Improved reliability is one of the key factors leading to RP2a being preferred ahead of RP1, which delivers faster switching at a lower cost. Before we commit to making the investment in RP2a we must be sure that consumers will see improved switching reliability. Ofgem should explore ways, for example through testing, trialling and piloting, to seek assurance that their reforms will deliver the reliability benefits that underpin the business case. Making assumptions about the benefits, and waiting to see what happens, does not seem appropriate given the level of investment consumers are being asked to make in the new arrangements.

Three months is not likely to be sufficient time to be able to identify whether switching reliability has improved, and especially whether erroneous switches are being avoided. Many erroneous switches are not identified until the first bill is received from the incorrect supplier, which can be two to three months after the switch. The proposed transition window is likely to be too short to be able to accurately assess the impacts of the reforms, or to correct any issues that arise. There is a risk that timescales could be shortened before we know that reliability has been improved, which could lead to an increase in erroneous switches.

It is not clear how suppliers would be able to demonstrate that they are able to mitigate the risks associated with shorter switching timescales. The Impact Assessment for the new switching arrangements makes the assumption that all of the reliability benefits of the new arrangements are delivered through the CSS, and that they are equally available to all Suppliers. Any reliability issues would in theory be shared across all suppliers. It is not clear how individual suppliers would be able to overcome these issues on their own, and how they would be able to demonstrate that they could switch more quickly with no adverse impact to consumers.

We would propose that a longer transition window, potentially up to twelve months, would be required to understand whether the new arrangements are actually delivering the anticipated benefits. This should be assessed through reporting against a set of Key Performance Indicators, which as well as assessing numbers of erroneous switches should also include numbers of complaints and levels of consumer satisfaction. Once the required benchmarks have been achieved then industry as a whole should move to a shortened switching timescale in a co-ordinated manner. This will be easier for consumers to understand than an approach which varies across suppliers, and will give them confidence that any switch they are considering, irrespective of the suppliers involved, will compete reliably.

Q7. 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.

Setting a revised maximum switching timescale will depend on whether the reliability benefits that the proposed reforms are being realised. Should this be the case, there should be no reason that suppliers would not look to switch consumers in the shortest timescale possible, and certainly within five working days. We anticipate that the speed of switching would become a new differentiator in the competitive energy market, with the speed of switching becoming a factor in deciding which supplier to switch to.

The only exceptions to this should be those occasions where the consumer has actively chosen a longer switching time (for example due to a contract end date or a future home move) or because their metering arrangements require a longer switching time (for example legacy prepayment customers). Ofgem should look to engage directly with suppliers in regards to their intentions once the proposed reforms are in place to understand how real any risk in this area is.

It is critical that consumers are able to continue to choose to switch at the end of the cooling off period if that is their preference. While measures will be implemented to encourage customers to switch during the cooling off period, some will still want to wait in order to avoid the potential consequences of switching again should they choose to cancel. At the same time as giving consumers the confidence to switch during cooling off, we must ensure that consumers remain able to make choices that are right for them.

Given the number of exceptions that would need to be accounted for in any maximum switching timescale, and the inherent benefits to suppliers of switching consumers as quickly as reasonably possible, it is not clear what the benefits of setting a revised threshold will be. It would certainly be very difficult to put any reporting in place to identify switching performance given the number of legitimate exceptions to the proposed timescales. Any reporting would also need to be able to accurately capture the date the contract was entered into, and the date that the switch actually took place.

We recommend that Ofgem do not make any decisions in regards to determining a shorter maximum switching timescale until supplier behaviour post implementation can be better understood.

CHAPTER: Eight

Q8. Do you agree with our proposal to create a dual fuel REC to govern the new switching processes and related energy retail arrangements?

We agree that Ofgem's switching programme provides the opportunity to introduce simpler, consistent and more transparent governance arrangements around the switching arrangements and related central systems for both gas and electricity. We also consider the consolidation of the gas and electricity arrangements into a single industry code is a pragmatic approach.

From the shortlist of options proposed by Ofgem, we support the creation of a new dual fuel Retail Energy Code. The alternative option of locating the arrangements in the Smart Energy Code (SEC) is not supported. The SEC was created for the sole purpose of defining the rights and obligations of energy suppliers, network operators and other relevant parties involved in the end to end management of smart metering. We believe the SEC's role should remain as is and that the smart metering governance framework should remain separate from wider switching and retail activities, particularly as it is suggested the scope of the new consolidated code could at some later stage extend to much wider retail activities

Q9. Do you agree with the proposed initial scope and ownership of the REC to be developed as part of the Switching Programme?

We are currently supportive in principle of the initial REC's scope focussing on those areas set out within Figure 7 (p62) of the consultation document. However, this should be kept under review as it will ultimately be impacted by how the design and development of the new arrangements evolve over the programme.

We note that Ofgem does not preclude from the possibility of including additional areas not directly related to switching from inclusion in the REC from day 1. We believe it is right that opportunities to consolidate other relevant separate gas and electricity arrangements in to the REC should be considered where it is practicable to do so.

In terms ownership of the code, we believe that in the absence of any new legislation that would implement a code administrator licence, gas and electricity suppliers should be collectively responsible for owning and maintaining the REC, who would then competitively procure an organisation to act as the REC manager. Given the REC will, as a minimum, govern customer switching arrangements; we do not consider it appropriate to place responsibility on any alternative licensee, such as network operators.

Other than suppliers, we can see there is merit in requiring parties who will interface with the CSS to accede to and comply with the code, such as Network Operators and the DCC. The extent to which this should extend to other parties is unclear at this stage.

We acknowledge the need for suitable funding arrangements to be established to cover the operating costs of any company established to administer the REC (RECCo). While we accept that it is likely that suppliers will contribute the majority of the funding, we believe that it is sensible that Ofgem should be directly involved in the development of a fair charging regime.

Q10. 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?

In order to achieve successful delivery and stable operation of the CSS and to provide certainty to suppliers, it is vital that there is a body responsible for overseeing the delivery and performance of the CSS during the design and build phase and initial live operation. We agree with Ofgem's currently minded proposal to modify the DCC's licence in order for it to be obligated to perform this role. However, the extent to which the DCC's role extends in to live operation should be further considered, including the possibility of transferring the management role to RECCo at some point in the future.

We note that the extension of the DCC's role will be captured by the existing price control framework and underpinned by an incentive/sanction regime. Our current experience of the DCC is one of escalating costs which are not transparent to the parties that are responsible for paying and over which these parties have little if any control. We are seeing additional costs incurred for items that should have been part of the core DCC delivery. It is not evident that these costs are providing value for money, especially relative to the costs that would be incurred if this work were subject to a competitive tender. The existing price control framework that the DCC operates under is not working and is not controlling costs. We would have significant concerns about extending this to include live operation of the CSS.

Q11. Do you agree that there should be regulatory underpinning for the transitional requirements and that this should be contained in the REC?

It is critical that the transition from the current to the new arrangements is carefully managed. We accept in principle that parties should be subject to regulatory obligations in order to ensure that there is full and effective industry engagement with the switching programme, including the delivery on transitional requirements that facilitate a successful and timely transition to new switching arrangements. It is noted that Ofgem will further develop the transitional requirements in the delivery workstream of the programme over the coming months. We welcome confirmation that the development of these requirements will be informed by lessons learned from similar significant industry reform programmes.

It is expected that transitional requirements will be introduced through a combination of licence amendments and code requirements. On this basis, any failure by a party to deliver the transitional requirements would likely put such party in breach of its licence and potentially subject to enforcement action by Ofgem. Furthermore, it is noted that in the context of any decision around go-live, Ofgem states that this will not be determined by the pace of the slowest and opens up the possibility of commencing new arrangements, even where some suppliers are not ready. This approach could have the effect of such suppliers being prevented from registering new customers, as access to the CSS would not be available. We believe the combination of the above factors should place a strong incentive on parties to deliver on their obligations.

Q12. Do you agree that we should pursue an Ofgem-led SCR process in accordance with a revised SCR scope?

Switching reforms will involve the need to make significant and complex code and licence changes that will require effective development, management and co-ordination. We believe Ofgem are best placed to undertake this role and are therefore supportive of Ofgem adopting Option 3, whereby it will lead the SCR process and co-ordinate the entire suite of code and licence modifications that will be required. The process of developing such changes should include full and effective consultation and engagement with industry parties.

Q13. Do you have any comments on the indicative timetable for the development of the new governance framework?

At this stage, the indicative timetable appears appropriate, acknowledging the need for this to be flexible in order to reflect how the programme evolves. We are supportive of the intention to publish in draft both enduring REC provisions and consequential code modifications in advance of the DBT stage in order to provide parties with some certainty.

Impact Assessment: CHAPTER 3

Q1. 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?

As noted in our response to Question 1 we have significant concerns about the level of uncertainty noted in the Impact Assessment in regards to costs. A significant number of parties, including a number of suppliers, did not respond to the RFIs. This means that a significant proportion of the total costs have been assumed. Even where costs have been provided, significant discrepancies between similar parties were identified. This is likely to have arisen as a result of the high level nature of the requirements that were used as the basis of the RFI. In our case, the more detailed work undertaken in the DLS phase has challenged a number of those assumptions and would result in different requirements. Our costs are likely to have changed as a result of this detailed work, and we would expect the same to be true of other parties. Re-estimation of the costs of RP2a, based on

a more detailed understanding of the design, must be undertaken before any final investment decisions are made.

It is not clear how the DCC have estimated the direct costs that they believe would be incurred for the implementation and operation of the CSS. The process for procuring the CSS has not yet begun, so the level of accuracy that can be attributed to these costs, which represent a significant proportion of the total, is unclear. Our experience of the DCC to date is that their initial view of costs tends to be low, and these costs then tend to escalate over time. There is also a potential incentive for DCC to provide lower cost estimates up front, in order to influence a decision from which they will benefit through the margin to be applied later. Given this it is essential that the full scope of the CSS is clear at the time the service is procured in order to prevent a low initial bid but where any change to scope is incredibly expensive. We would welcome assurance that due diligence has been applied to the costs provided by DCC to ensure that the information they have provided is reasonable.

Q2. 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?

We welcome the pragmatic approach that has been taken to aspects of the proposed design of the new switching arrangements, and the amendment or removal of requirements where the costs are not justified by the potential improvement to the reliability of the switching process. Any unnecessary costs must be avoided, as these are costs that consumers ultimately bear.

We agree that defining objections windows in terms of working days is a pragmatic approach. The higher costs associated with alternative options such as instantaneous objections, or a central objections register, are not justified by the incremental benefits to be gained by the small increase in switching speed that would be achieved as a result. What is not made clear are the benefits of having a one working day objection window for domestic consumers, with a two working day window for non-domestic consumers, as opposed to aligning the approach for all customer types. Further detail on this would be welcome.

We are also concerned about how a switch will be identified as being for a domestic or non-domestic consumer, and what timescales will be applied if the losing and gaining suppliers have different views. This may occur if the switch is coincident with a change of use of the premises. This could create issues where the losing supplier only operates in the non-domestic market and has designed their systems and processes to a two working day window, but the switch is shown as being for a domestic consumer.

We agree that the savings to be made by not requiring suppliers to offer equivalent terms to consumers that return to them after cancelling during cooling off do not seem to justify removing this requirement. We can see that the ability to switch knowing that you will not be disadvantaged if you decide to cancel during cooling off would offer consumers assurance, and may encourage them to engage in switching as a result.

Our main concerns in regards to switching during cooling off have never been the costs of enabling this capability, but the additional complexity that this could introduce for consumers. While consumers will have the security of knowing they can 'switch back' on equivalent terms, they will need to determine whether this is their preferred outcome if they do cancel during cooling off, or whether it would be better for them to switch to another supplier altogether. Making these decisions, and then needing to contact the relevant suppliers to enact those decisions, could be regarded by some consumers as being a hassle. This could discourage some from switching in the first place, or worse, from exercising their right to cancel their contract. In some cases it might result in consumers being switched to a default tariff if they cancel but do not select a new supplier, which would clearly be an undesirable outcome.

We remain concerned that cancelling during cooling off will result in short billing periods for small amounts of energy. While we expect most of these to be legitimate, and for consumers to pay these with no issues, we believe there is an opportunity for gaming to occur. Consumers may seek to enter into supply contracts and then cancel during cooling off in the expectation that the supplier will not chase them for overdue payment for these small amounts. Should this risk materialise this could lead to an increase in unrecoverable debt which would be socialised across those consumers that do pay their bills. In extreme circumstances this could increase the use of security deposits to mitigate these risks around non-payment. Ofgem need to consider this risk and the potential impact on supplier costs as part of the impact assessment.

We agree with the removal of the proposal for metering agents to be mastered in the CSS, and for the CSS to appoint and de-appoint agents. The appointment of agents is a core part of the switching process, but this process is not as simple as just nominating the appropriate agent. The appointment process also involves provision of data to the agent by the supplier, including contractual information and data relating to individual consumers. The reforms proposed would not have removed this interface between suppliers and agents, but added an additional interface with the CSS. This would result in increased costs with little, if any, material benefit. While the CSS should not be the master for metering agent appointment, information about these agents should be recorded in the CSS. The role of metering agents in the end to end switching process, specifically in regards to the accuracy and availability of metering data, is also something that should be taken into account when considering the reliability of the switching process.

We agree with the proposal to remove the MCP ID from the design of the new switching arrangements. It was never clear what benefit the introduction of this new data item would deliver to the switching process. While it is important for suppliers to know who is providing communications services to smart meters, this is already achieved through the existing SMSO ID. For other metering types with remote communications, such as advanced meters, daily read meters and half hourly meters, the communications are usually provided by the metering agents as part of a direct contract with the consumer. For these arrangements, which do not involve the supplier, it was not clear what benefit recording the MCP ID in the CSS would bring.

Impact Assessment: CHAPTER 4

Q3 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?

Improving the reliability of the switching process will deliver direct benefits, both to consumers and to energy suppliers. Erroneous, unsuccessful and delayed switches are time consuming to resolve, and prevent consumers from switching to their preferred supplier at the time that they wish. We also agree that improving the speed of switching will enable consumers to access better deals more quickly, although we remain concerned about the impact on the consumer experience of switching during the cooling off period.

The summary in Table 4.2 makes it clear that all of the potential reform packages will deliver materially similar benefits to consumers in regards to saved time and bill saving through increasing the speed of switching. The differentiator between the reform packages is very clearly the potential impact that those packages have on the reliability of the switching process.

We agree that improving the quality of address data that is used in the switching process is likely to deliver significant reliability benefits. What is not clear from the analysis that has been undertaken is that the implementation of a CSS is the most cost effective way to deliver improved address data quality. The Impact Assessment makes the assumption that a CSS is the only way to deliver improved data address quality to the extent required. It also assumes that ongoing stewardship and maintenance of this data can only be delivered through a new set of switching arrangements, and the introduction of a single address provider for the address data used for switching.

We do not believe that it has been demonstrated that this is the case, and that these benefits cannot be achieved through incremental change to the existing systems. As noted in our response to Question 1 we believe that further consideration should be given to how a single address provider could interact with the existing systems, and enable the same benefits to be delivered without incurring the significant implementation and operational costs of implementing a CSS. These are unnecessary costs that will be borne by consumers.

We note that a number of the direct benefits to consumers are quantified in reference to the SVT. It is not clear how sensitive the analysis undertaken is to any proposals for price caps, and to what extent this might impact the assessment of the monetised benefits. We would welcome clarification on how the potential for any price caps, both now or in the future, have been accounted for in the assessment.

Impact Assessment: CHAPTER 5

Q4. 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?

There are a significant number of drivers for switching rates. Over the last few years we have seen significant variations in levels of switching, and switching rates have steadily increased over time even though the process itself has not materially changed.

We broadly agree with the illustrative analysis that has been undertaken and the potential indirect benefits of increasing levels of consumer switching. What we do not believe has been fully demonstrated is the causal relationship between the implementation of reforms to the switching process, and changes to switching rates. It is not clear that even the cautious approach that has been taken in modelling Scenario 1 will directly result from the implementation of any reform package.

We would be very cautious about making any decision, especially one involving the level of investment that we are talking about here, solely or mainly on the basis of the indirect benefits. The business case should focus on the direct monetised benefits, and any indirect benefits should support but not drive a decision to proceed.

Impact Assessment: CHAPTER 6

Q5. Do you agree with our assessment of the wider benefits of our reform proposals?

We agree that the ability to easily and quickly change supplier is a critical component of a well-functioning competitive energy market. Consumers who want to change their energy supplier should be able to do so quickly and reliably. In this switching environment suppliers are likely to have to find new ways of attracting new consumers and retaining their existing ones. This should lead to increased competition not only on price, but in regards to the services that they provide to the consumer. The rollout of smart metering extends the scope of the services that will form the basis of that competition.

It is important that any switching arrangements are able to support future innovation. However, a realistic view needs to be taken as to what form that innovation is likely to take, and within what timescales. Otherwise, there is a risk that money is spent up front to implement systems that are capable of a high level of future flexibility that is never exercised. This may also become an issue when it comes to procurement of the new CSS; it is difficult to make the ability to adapt to future innovation into a requirement within a procurement exercise without a view of what form that innovation may take. We do not believe that there is a clear enough view at the moment of what that future market will look like to be able to confidently procure systems now that will support it. The outcome of other programmes, such as those addressing energy system flexibility and half hourly settlement, will provide more clarity but are some way from being complete.

We believe that the prudent approach would be to make incremental changes to the existing systems now in order to improve switching speed and reliability. These should have a low cost and short payback period. More fundamental changes, if and when required, can then be progressed at the appropriate time.

Impact Assessment: CHAPTER 7

Q6. 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?

As noted in our response to Question 4 we believe that the focus should be on the direct monetised benefits to be gained from any reform, this may then be further supported by a view of the indirect benefits.

The information provided in Figure 7.1 indicates that the NPV to consumers for reform packages RP1 and RP2a are broadly similar. We note specifically that in the 'optimistic' case there appears to be little or no difference between these packages in terms of NPV, and that the negative NPV for the 'pessimistic' case is lower for RP1. Purely on the basis of the information presented in this analysis, we would assume that the decision to be made would be to progress RP1, as the risk of delivering a negative NPV would be less than for RP2a.

Similarly the information provided in Figure 7.2 indicates that even when the illustrative benefits are monetised and included in the analysis, the range of potential NPVs is broadly similar for RP1 and RP2a. The lower end of the NPV range is higher for RP1 than for RP2a, again indicating that the risk of a low NPV would be less for RP1 than for RP2a.

Based on these two pieces of numerical analysis it would be reasonable to view RP1 as being the preferred option as it is more likely to deliver positive direct benefits to consumers. However, RP2a has been indicated as the preferred option for reasons that are difficult to value objectively as they are largely qualitative.

As noted in our response to Question 1 we do not believe that this qualitative assessment, as set out in Table 8.1, is necessarily accurate. We are also concerned that the increased level of risk associated with RP2a and the implementation of new systems and processes, as well as the involvement of DCC, has not been fully accounted for in this decision. We are extremely concerned that reform package RP2a will be progressed without a clear and unambiguous view that this will deliver direct benefits to consumers.

We believe that Ofgem should reconsider their approach to the reform of the switching arrangements. We believe that incremental reform based on enhancement of the current systems and links to a single address database would achieve the speed and reliability benefits that underpin the business case for reform, but do so at a reduced cost, in shorter timescales and with a lower level of risk.

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