



Consultation:

Delivering Faster and More Reliable Switching: proposed new switching arrangements

Response from E.ON

General Comments

We have always been supportive of Ofgem's intent to reform the customer switching experience as a result of the changes to the energy sector that the deployment of smart meters brings.

During the course of the last 18 months we have actively contributed to the Switching Programme Blue Print Phase and have engaged with Ofgem via the RFI and subsequent consultations that have ultimately led to the development of the reform package 2A.

We are glad to see that Ofgem have revised the original proposals based upon the evidence that has been presented to them and believe that the set of reforms suggested in this consultation are a good blend of improvements to the customer experience, delivered in an efficient manner.

Maintaining processes for the annulment of a customer switch and the ability to fast track one where it takes place as a consequence of a Change of Tenancy seem sensible. Both are designed to improve the customer switching experience, the first by reducing the number of erroneous transfers and the second by reducing the time it takes to transfer to a new Supplier.

It could be argued that the new faster switching speeds in the proposed reforms undermine the need for this functionality although we have not yet seen this convincingly presented.

Instead arguments for the removal of these business processes seem to concentrate on the ability for them to be potentially used in an inappropriate way by Suppliers for their own commercial gain. This would seem not to argue for their removal but instead to highlight that there is a gap in the governance process that allows this to happen.

Associated ongoing work in the industry to look to mitigate and reduce the number of erroneous transfers has highlighted similar issues. Resolution of this therefore lies in the development of improved governance arrangements regarding the customer switching process.

Industry performance reporting regarding the switching process is currently quite limited and focused on a small sub-set of large Suppliers. Current industry code obligations are inconsistent between electricity and gas. Where they are detailed there is a lack of robust, independent and consistent reporting which hampers efforts to enforce standards.

It is therefore clear that addressing these current shortcomings in the industry is something that the Switching Project should implement as part of its proposed reforms. A switching performance assurance



framework, clearly set out in the new Retail Energy Code (REC), supported by new centralised reporting across all Suppliers and backed by an Ofgem enforcement regime is needed to ensure the programme delivers against its aspirations to improve the customer switching experience.

We do not believe the proposed new maximum 5 day switching requirement is useful and in the best interests of the market and consumers. It would be preferable for the existing Licence conditions to be reviewed and a new set of principle based obligations introduced that were more aligned with delivering the outcome that is intended from this proposal.

There are already a number of parallel and duplicate communication networks within the energy sector. Implementing yet another one for the Central Switching Service (CSS) risks creating additional costs for the industry and consumers that is difficult to justify. It would be better to assess the current networks that are in place, particularly those most affected by the potential reforms here and decide what is needed for the future.

We agree with the analysis by the consultants that a competitive tender approach would be best to determine the actual service provider to use. However this in itself would not address the issue of the costs of multiple communication networks and the potentially unnecessary obligations upon electricity DNO to provide a Data Transfer Service that arise from the delivery of this project. A more thorough analysis of this would be better at this stage than rushing into a specific procurement exercise.

The value of the future role for the DCC in this project is unclear to us. Using them as a procurement delivery service for the project has proved challenging to date and their continued involvement seems to present more risks to the programme than benefits.

The function of implementation delivery manager could be provided a by a number of organisations and funding for this could be found via existing routes if this is a major driver in the choice of DCC for this activity.

On an enduring basis a direct contractual relationship between the REC and the new CSS should provide for a clearer and more effective delivery of services. Involvement of a licenced entity may prove more difficult to manage and to ensure a good quality service for industry and consumers.

There are some proposals in the consultation that we are not convinced need to be resolved or agreed upon at this point in time. These relate to the implementation approach for the reforms which seem better suited to a debate once the actual new system and its architecture have been agreed.

The development of a REC rather than the use of the existing Smart Energy Code (SEC) as the home for the future switching governance arrangements is a suggestion that we support. This new industry code will be able to replace a number of existing industry codes and resolve a number of industry code governance issues that have been highlighted in the past as creating problems for a properly functioning market.

We are pleased to see that this enduring benefit was recognised by Ofgem in this consultation and articulated in the future development plan for the REC. Although not explicitly part of this programme the complementary work needed to make this rationalisation of code governance happen is something that we would like to see and believe that there would be wide support for this from across the industry.



Consultation Questions:

CHAPTER: Two

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?

Yes, it is good to see that Ofgem have taken on board the results of the Requests for Information (RFI) and consultation with industry stakeholders that has taken place during the course of the last 6 months.

The proposed amendments should reduce the costs to implement the reforms and yet should not undermine the ultimate benefits that they will provide to the market and to consumers.

CHAPTER: Three

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.

There is logic in having the current 'customer requested objections' process and the proposed 'annulment' feature should deliver the same functionality for the proposed new switching business processes.

The use of this business process has been controversial due to the ability for it to be potentially open to abuse for commercial reasons by a Supplier.

If the process is considered to support the good functioning of the market (i.e. reducing the number of erroneous transfers) and be in the interests of energy customers then continue to support it in the new arrangements is something that we would support.

If there is a concern that the new process will be misused then it would seem appropriate to introduce a more resilient industry compliance regime than exists today.

This would need to be supported by robust, independently provided reporting and backed by an enforcement regime that had the support of Ofgem and relevant Licence conditions.

Details of the total number of customer requested objections should be available from the current central registration service providers. We suggest that this information is used to understand the current level of activity by individual Suppliers rather than relying on potential estimates of future use.

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.

Our response to this question is very similar to that for question 2. This process currently exists and was introduced to help facilitate quick customer switching at the point a premises changes ownership.



The logic for wanting to do this remains and it would not be a particularly good experience to be left being Supplied (on out of contract or deemed rates) by an organisation that a customer did not want to have a commercial relationship with.

There have been cases in the past where Suppliers are believed to have misused this process. The current enforcement regime within the existing codes has struggled to manage this. The relevant obligations are clear but there is a lack of good, robust, independent reporting to confirm that infringements have occurred.

There is also limited scope for the industry code bodies to bring any relevant sanctions upon parties that are in breach of the existing obligations regarding this issue.

Resolving these would ensure that the process can continue to be used for its desired intent but would also make sure that it is not being abused by individual parties inappropriately.

As with the previous answer, information regarding the number of Change of Supplier events that have included a Change of Tenancy flag are available from the current central industry switching service providers. This information will be more accurate and comprehensive than asking for individual Suppliers to comment upon their performance.

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 back up your response with evidence.

Yes, as stated in our responses to questions 2 and 3, a new stronger performance assurance regime is required to support the customer switching experience.

Currently there are no formal regimes, reporting on issues is sporadic and only focused upon a small number of the largest Suppliers. The ability of industry codes to provide robust enforcement action is limited.

Unlike the current performance assurance regimes for electricity and gas settlement that are focused on the commercial impacts upon industry parties the primary purpose of one for switching would be to ensure a good outcome for affected customers.

This implies that Ofgem should be far more involved in the arrangements than they are for the settlement performance regimes where these are mostly left to the industry codes to self-police.

Development of this future switching assurance regime should be part of the next phase of the Switching Project.

CHAPTER: Four

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?

It is logical to assume that a competitive procurement exercise should provide the most cost effective communication network solution for the energy industry to use.

The question posed here of whether this procurement should be undertaken by the DCC as part of their supporting role for the Ofgem Switching Project is we believe the wrong one to be asking at this point in the project.



The industry currently has a number of data networks that support the various functions required for interoperability and in communicating with the various central service providers (e.g. the Data Transfer Network (DTN), IX Link, Elexon networks, DCC networks...).

One of these is the DTN and was specifically developed to support the electricity customer transfer process. To ensure that this service is provided a specific Licence obligation exists upon the electricity Distribution Network Operators (DNO). The future viability of this service is questionable if a new network service is created for the CSS. One question that should be therefore asked by this project is whether the obligation upon the DNO is still justifiable without the CSS business requirement.

Should the DTN cease to be viable and the licence obligation to provide it removed, then there would also be questions regarding the other services that the DTN provides for other parts of the energy market (e.g. agent functions and green deal data flows) and where they could be delivered.

The ultimate question on this issue that the project should be addressing at this point regards the justification for the energy sector of having a number of seemingly duplicate communication networks in place.

This seems to be inefficient and potentially leading to higher industry and customer costs than necessary. We would like to see a cost benefit analysis undertaken by Ofgem to understand what the preferable solution for the industry should be and an assessment of how any consolidation could be achieved (e.g. how and when the current contract position of service providers could be ended or novated).

We note that Electralink have published a paper on the potential use of the DTN for the CSS communication network and that Xoserve have also publically shared a view that the future of the IX Link and DTN could be combined to aid the industry. These views support the points raised here regarding a more strategic review of the options being needed.

The final question that needs addressing regards the appropriate governance and contractual arrangement that should exist for the communication network. It would seem in line with the intent of the REC for this to be the appropriate governance and contracting vehicle for the future service.

This would address the issue of the potential uncertain future of the Data Transfer Service (DTS) that the CSS proposals present. It would also resolve some of the problems that have arisen in the past regarding the status and governance of the Data Transfer Services Agreement (DTSA) as an industry code.

It would therefore seem pragmatic to include within the scope of this project the migration of the DTSA into the REC at an early stage.

This migration exercise should address the following issues:

1. Whether the licence obligation upon the DNO to provide the DTS is still required
2. An assessment of whether the current DTN fulfils the requirements of the new CSS service
3. Understand whether there is a longer term logic in reducing the number of communication networks that support the energy sector and how this could be achieved
4. Assess the value added reporting services that have been developed for the DTN, which are currently governed by the DTSA, and how these could be managed under the REC
5. Clarify the future contractual roles for the energy communication network, should these be directly contracted by REC Co, be provided by a specific sub-contractor (e.g. Electralink) or provided as part of the RECAS service provider



The current DTN service provider contract is due to end in a few years. This would seem a perfect opportunity to align the delivery of some of these migration activities, market test for the most cost effective solution and start a future amalgamation of the industries communication networks.

CHAPTER: Five

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 are not clear on what the purpose of the proposed three month transition actually is. We understand from the Switching Programme that this is to ensure that data accuracies in the new process do not undermine the experience that customers receive.

This would appear a laudable objective however we believe that system resilience, data issues and individual REC party readiness for the new CSS and business processes should all be thoroughly tested as part of the project implementation stage to ensure that customers receive a good switching experience from the day the new services go live.

A sufficiently robust set of system and E2E testing should prove that the new processes are fully working and that the customer switching experience is not affected in a detrimental way.

The proposal to allow some Suppliers to operate quicker switching times than others implies that there is some additional level of testing that may be required for users to demonstrate that their systems function properly.

It would be better to build this level of participant testing requirement into the overall project approach rather than to rely on an ad-hoc self-certified approach.

If there is a genuine fear that some Suppliers will not be ready then this should be managed by the project to ensure that the risk is mitigated. If not and an individual Supplier were to experience problems with their new registration process then there will be consequences for the affected switching customers as well as all their old Suppliers that would need to be resolved.

This would appear to risk a poor customer experience for maybe many customers and additional costs for a number of industry parties. It would be better to avoid this risk completely by developing robust project testing for all parties.

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.

No, it isn't clear as to why there is a need for Suppliers to transfer customers within 5 days of them signing a contract.

The reforms proposed by this project will reduce the time it takes to transfer a customer to 1 day. It is in the interests of the Supplier and the customer (in most residential circumstances) to switch as quickly as possible.



Some customers may prefer an alternative date at a pre-defined period in the future (e.g. beginning of the month or in the case of business customers when their current contract expires). They will not require a 5 day maximum requirement dictating when they have to enter into a contractual arrangement with a new Supplier.

It is suggested that this sort of arrangement would still be permissible under the proposed reformed regulations. This would result in challenges in reporting and compliance enforcement with the proposed new rules.

There may also be some circumstances when a 5 day switch might be considered unhelpful from a customer management perspective. An example might be traditional pre-payment metered customers. A transfer of this type of customer includes the provision of new devices to allow them to top up their payments on their meter. At certain times of the year a Supplier may consider this not to be possible within 5 days and determine a longer period would be more appropriate. Having to seek regulatory approval and derogation on each such occurrence would seem to be overly burdensome and not a productive use of people's time.

The logic for the choice of 5 days for a maximum customer transfer period is also not clear to us. The current Licence obligations were introduced as a result of EU regulatory requirements and therefore the existing 21 days is understandable. Prior to this there was not felt a need to prescribe within the Supply Licence a maximum transfer time.

If it were suggested that the maximum time be reduced to align to say the statutory Cooling Off period and limited to domestic customers then this may be something that could rationally considered and supported.

If the intent of this proposed obligation is to ensure that Suppliers do switch customers in a quick and timely manner; then it would seem more logical, and in keeping with Ofgem's other current reforms, to introduce a principle based regulation instead.

This would avoid the complications regarding an onerous and difficult to enforce compliance regime and would allow Ofgem to consider Supplier activity on a case by case scenario.

Amending the current Licence wording to remove the 'relevant date' sounds logical but this was developed to address a number of ambiguities with regard to a definition of 'contract entered into'. We would not be opposed to redrafting this Licence condition to make it clearer as to what Suppliers are being asked to do. Reporting on the current requirements has proved challenging with a number of guidance and definition documents having to be published by Ofgem to aid Suppliers in their understanding of the Licence's intent.

It would therefore be useful to review the existing licence conditions as part of an exercise to introduce a new principle based switching licence condition. This would complement the development and implementation of a reformed industry reporting and performance assurance framework for switching.

CHAPTER: Eight

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 with Ofgem's review that the use of the Smart Energy Code (SEC) would not be good and the conclusion that the development of a new industry code would be more appropriate.

We support the proposed future development of this industry code into a single retail market industry code.



We see this eventually replacing a number of the existing industry codes and significantly helping in resolving the industry issues that were highlighted in the recent CMA report into the energy market regarding governance arrangements.

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, the ultimate breadth of issues covered within the REC might be considerable but it is pragmatic to consider the correct timescales for this evolution and to prioritise those parts of the new code that need to be implemented to support the new switching arrangements.

Placing the obligations regarding the REC upon Suppliers is logical considering the proposed subject matter for this code. Making network operators and the DCC also signatories to the code is pragmatic considering their interest in the business processes that will be defined within it.

It might also be worth considering whether the BSC and the gas CDSP should also be a party to the REC some way, in a similar mechanism to that which currently is found in the MRA regarding Elexon. There are interactions between the settlement and customer switching processes that may benefit from their direct involvement.

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?

No, the current scope of the DCC's activities in supporting the Switching Programme are clear but have proven controversial in their delivery.

It isn't clear to us at this point as to what advantages there would be from the DCC's continued involvement in the project after the CSS service provider has been chosen.

We do not share the Switching Programme's view that there is merit in tying them into supporting the DBT and initial live operation of the CSS. This view seems to be driven from experience of the current Smart Metering Implementation Programme and the challenges that have been encountered from having a delivery entity responsible for the implementation of contractual arrangements that it was not part of drafting.

This is a different situation to that experienced here with the Switching Programme for a number of reasons:

- The scope of the new CSS is significantly narrower than that being introduced for the new systems to support smart metering.
- The proposed CSS is a development and evolution of an existing service that has been functioning in the market for over 20 years.
- Some of the proposed CSS solutions are evolutions of existing central systems.

We believe that the risk around procurement of a CSS can be mitigated by robust oversight of the ultimate contractual arrangements by the Switching Programme and by suitable and thorough engagement with stakeholders and future users of the CSS service.

Involvement of the DCC in the live operation of the CSS may create additional risks for the successful delivery of the service. In a future governance arrangement controlled by the REC it isn't clear to us as to what exactly the service the DCC would provide.



The CSS service provider could be directly contracted with the REC and be held to account for its service by the REC Panel and the RECAS code administrator. This situation would mirror a number of current arrangements within the industry codes (e.g. Experian as service provider for the TRAS service for DCUSA/SPAA and C&C as the provider of the GDCC for the green deal arrangements within the MRA).

These arrangements are clear and transparent with the commercial arrangements with the providers that underpin the service in the control of the users of the service. In a future model in which the DCC, as Licence entity, is involved in the provision of services that are then defined in the REC this clarity is lost and instead a model of price controls and regulatory service levels are required. This has not yet proven a successful model for smart metering services under the SEC and we would not wish therefore to see it replicated in the REC.

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, there will be activity required from all users of the new CSS service before it is implemented and in a live state, setting out what these are clearly within the REC removes ambiguity and improves transparency for all parties.

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

Yes, having the Switching Programme lead and co-ordinate activity is a less risky approach to take and should help to ensure the project is successful.

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

The timetable seems reasonable and highlights the considerable amount of the work that needs to be undertaken in establishing the new REC over the next 18 months.

From experience of the implementation of previous new industry codes the most controversial areas are around change, decision making and budget setting as these have commercial implications for parties to the code. Getting started on the debates around these as soon as possible will therefore be helpful in ensuring that the timescales are met.

It is also worth considering how soon in the process the new REC code administration service provider could be established. Having a service provider in place may help reduce the risks in delivering to the timetable as they would be able to provide additional resources and support that will otherwise fall to the Ofgem team to provide.



Impact Assessment: CHAPTER 3

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?*

These seem to be a thorough and in depth assessment of costs and we have nothing further to add to this.

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?*

The appointment of metering agents as moved from being in scope of the project to out of scope on a number of occasions since the Switching Programme was established. Leaving it out of scope of the project will help ensure that the reforms are delivered as it removes the risks that are associated with this functionality.

Considering the approach to agent appointments is quite different between electricity and gas it is probably sensible to leave it out of scope at the moment and instead consider reforms to the electricity metering agents arrangements as part of the mandated half hourly settlement SCR.

During discussions in the blue print phase of the project considerable benefit was attributed to better management and visibility of the Meter Asset Provider (MAP), especially during the change of supplier event. It would appear that the policy decisions that have been taken remove this benefit from the proposed reforms which would appear a potential lost opportunity.

Impact Assessment: CHAPTER 4

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?*

The impact assessment of the proposed reforms is modelled over a considerable time period and is therefore by default somewhat subjective. However the modelling within the assessment does seem thorough and comprehensive and therefore we have no further substantive comments to make on this.

Impact Assessment: CHAPTER 5

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?*

By definition these will be subjective and a matter of opinion rather than fact. The assessment present seems thorough and comprehensive and therefore we have no further substantive comments to make on this.

Impact Assessment: CHAPTER 6

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

The assessment present seems thorough and comprehensive and therefore we have no further substantive comments to make on this.



Impact Assessment: CHAPTER 7

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?*

The assessment present seems thorough and comprehensive and therefore we have no further substantive comments to make on this.