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28<sup>th</sup> October 2017

Dear Rachel,

Thank you for the opportunity to comment on your consultation: Delivering faster and More Reliable Switching: proposed new switching arrangements, dated 21st July 2017.

As a Challenger Supplier we are wholeheartedly supportive of effective changes to improve the switching process. We do however have a number of issues with the analysis and proposals as presented. The Industry is going through an unprecedented level of industry change including the roll-out of smart metering and burdening the Industry with parallel change programmes creates significant costs and challenges for Suppliers.

We do not believe that the evidence presented has necessarily justified the cost of the faster and more reliable switching project. If the balance of the business case is not correct then our customers may incur significant costs for little or no benefit. The 18 year life cycle and therefore payback period of the project is not, in our opinion consistent with a developing, innovative energy market.

## **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?**

Whilst we agree with many of the benefits stated in the response there are a number of significant assumptions. Improved reliability can only in our view be achieved by significant data quality improvement. Faster switching will not reduce Erroneous Transfer numbers without an improvement in industry data quality and in a “faster moving market” may actually increase the level of ETs some of which may even be instigated by customers themselves. It could be argued that a slower switching process that is more accurate, with less ETs, is more beneficial to the consumer. Consumer saving achieved by switching faster may also be over-estimated given the recent introduction of the tariff caps.

RP2a provides a 3 month period to “protect reliability during transition” where Suppliers will be mandated to switch during a week period. This could increase implementation costs for Suppliers by requiring two system changes. A big bang approach would deliver more savings by requiring Suppliers to develop their systems only once.

Customer behaviour is difficult to predict and we do not believe that it can be assumed that faster or more reliable switching will increase the number of customers who do switch. Other service providers such as broadband, telephone and banking services offer the consumer the option to switch in shorter timescales however these are not next day. Whilst an initial increase in switching rates might be achieved continual engagement requires a more holistic solution. The Industry may run the risk of over-engineering and delivering an expensive solution to reduce switching time which may only be a perceived problem by consumers themselves. A negative impact may be that competition is reduced in the market as Suppliers focus on retaining their customer base causing a sustained stagnation.

#### **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.**

Whilst we do not have information available to support our response this should be assessed very carefully and have a strict performance assurance framework around such a mechanism to prevent commercial abuse. Changing the CoO indicator may encourage nefarious use by consumers to avoid exit fees or avoid debt which is a considerable industry issue. There is clear benefit to the inclusion of an annulment feature to reduce ET's, however a robust regulatory and monitoring framework with proportional enforcement is required. It is also noted that this facility should only be used when a consumer informs their Supplier that they have not entered into a contract with a new Supplier. There is a concern that consumers may change their minds immediately and for little reason e.g. in reaction to word of mouth, bad press or an internet article and create a significant administrative burden by preventing switches, potentially legitimately, however having agreed to a contract.

**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 believe that a losing Supplier should always be invited to raise an objection as this may lead to frustration of the process. In a genuine CoO event the consumer should not be prevented from switching.

**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.**

As a principle any process that impacts switching between Suppliers therefore may have a significant impact on market competition, should have a strong performance assurance regime. It is clear that abuse of such a mechanism is deemed as a market risk so should be monitored. The regime should be effectively incentivised with the standard preventative, detective and remedial measures. This should be backed by a regulatory framework that enables enforcement or financial action if necessary.

## **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?**

Yes, communication methods and technology have improved considerably over the last decade. This decision should however be balanced against a cost benefit assessment of the procurement.

## **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.**

Placing an interim step in the process may serve to protect reliability however creates a significant extra burden on Suppliers to develop their systems more than once to react to the differing switching times.

### **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.**

We are not sure that a convincing level of evidence exists to prove that decreasing the switching process to 5 days will encourage consumers who are not engaged with the process to switch. Disengaged customers often mistrust the energy industry and whilst increasing the speed of a switch may provide a better or quicker service, it does nothing to increase this low level of trust.

## **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, a strong governance structure and effective code is required to provide assurance to the regime and encourage fair and transparent arrangements which have an effective change management process to develop and implement future innovation in this area. Furthermore a reduction in complexity of these arrangements would be welcome to assist smaller market players and new entrants who lack the resources needed to effectively manage multiple codes and multiple change processes.

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

Any move to reduce the complexity of industry codes or combine them under one robust governance structure that provides support with clear escalation paths is welcomed by extraenergy. The SEC is a one to many code with a central agent whereas any code to govern switching is required to cover multiple parties and all of their interactions. Consideration will also be needed on how to fund a code that is multi-party and covers both fuels in a proportionate manner. Legacy reasons should not prevent

the development of a new code that “demystifies” the industry and provides a clearer framework for industry participants.

**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, a centralized service is required to oversee delivery of the CSS with a controlled and structured transition. The DCC should oversee delivery of the CSS to ensure an accurate and economically efficient delivery for the industry and ultimately the customer. A central organisation managing service providers seems to be the most sensible option. Incentivising the DCC to ensure that the CRS delivers to the satisfaction of its stakeholders is in our opinion required.

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

Yes, establishing a number of industry milestones with a focussed plan that includes all industry parties and places requirements on them to achieve milestones and deliver the required industry changes should drive out issues at an early stage and go some way to mitigating the risk of project delays. Some level of control of parties may be achieved by using established industry change processes to drive and deliver the changes until full transition is achieved. Go live options and transition should be steered by a decision making framework/governance group of industry experts that have no commercial interest in the pace of change. Whilst a Supplier might be commercially incentivised to be ready for go-live it can still present significant risks to the market or consumers if it fails to be ready through unforeseen circumstances.

Further regulatory intervention will be needed when considering the ownership and migration of data into a dual fuel register or even for testing purposes. Both around any GDPR issues this may cause and existing governance and data ownership rights.

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

Yes, a single Ofgem led SCR process may ensure that the whole process is easier to manage, both centrally as a change and for Suppliers who will only have to deal with one central change body to shape and develop the required industry modifications rather than multi-codes and multi-parties. By Ofgem producing a suite of code modifications it may prevent Suppliers and Shippers from raising a myriad of alternative modifications potentially for commercial reasons.

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

We agree with the timetable however note that a level of flexibility will need to be introduced.

## 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?**

The impact assessment contains a wide range of benefits which may cause the industry some concern. Basing an impact assessment on an 18 year period seems a considerable amount of time and seems somewhat extended for a technology led industry or product. We agree that improved reliability can only be achieved by an improvement in industry data quality.

Whilst switching assumptions have been based on the banking sector which may appear comparable we would like to urge caution over using them, there are significantly more energy Suppliers than banks. Increases in yearly bank account switching of 5%, 3% and then 2% seem to represent a temporary fix. It no doubt drove innovation and competition however, is there any data to show by who or how this was funded? For example offers of free items, subscription services, cinema tickets or similar with your bank account were either funded by the customer, a sub set of customers or are from within a sector that had significant margins. Ofgem's own CSS figures show that Supplier margins are in the region of 2 – 5% and decreasing. This may mean that this innovation will come at a cost to the consumer. Passing through 85% of the direct cost to the consumer is also in addition to this in a market where public mistrust is considerable.

### **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?**

Ofgem analysis of the NPV incremental net supplier costs of the objections process clearly shows that Option 1: 1 WD domestic and 2 WD non-domestic offers the best value for money for consumers. It will also require automation of objection processes for all suppliers which may lead to an increase in reliability. 2 WD objection process for non-domestic customers also seems appropriate as customers are unlikely to be vulnerable or as sensitive to price.

Requiring losing Suppliers to offer equivalent terms for customers who decide not to complete their switch and remain with the losing supplier during the cooling off period may give consumers increased confidence to switch however also may have an unintended consequence of reducing the number of switches especially if their former tariff was particularly favourable.

A move away from the traditional model that removes a Supplier's ability to appoint its agents may serve to increase costs for a consumer. This is apparent where Suppliers may perform the function themselves or have negotiated fair contracts/have legacy arrangements. It would also remove any competition from this sector which currently serves to drive value for money services. By requiring the CSS to hold these data items and serve only to notify the losing MOP, MAM, DA and DC on switch confirmation and execution this market element of competition can be retained.

However CSS managing MOP MAM DA and DC would also present a far simpler industry solution. It would remove significant complexity, and result in a flatter smearing of these necessary costs across the industry, even going some way to removing a market barrier to entry or reducing favourable contract terms that may be enjoyed by some Suppliers due to economies of scale.

Whilst an increase may be expected in costs for PCW (Price Comparison Websites) we believe that these sites should be included within the Industry Regulation Framework. The current code of confidence is not robust enough to drive industry change or measure performance of parties that can have significant impact on switching and a customer's experience.

#### **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?**

It is difficult to surmise that faster switching times will lead to an increase in the number of customers who actually switch. Erroneous Switches may be considered the most harmful to consumers but the ability to switch in a shorter time period does not resolve these. It is our belief that this is caused by inaccurate industry data. Smart meter roll out alone should go some way to mitigating this by replacing meters, updating data and improving data reliability. Unsuccessful and delayed switches are also driven by the same issue, data quality. Switching would become more reliable with improved data quality regardless of the timescales involved, in essence shorter timescales may actually be achieved by data quality improvements.

Without ongoing data quality improvement faster switching may in fact decrease data quality by providing more opportunity and transactions for it to become corrupted. Your analysis and assumptions show that RP2a improves data quality significantly and at the best value however with Smart roll out we do not agree with the assessment of the counterfactual as mentioned; Smart roll-out should have an impact on industry data quality.

RP2a obviously presents the most suitable option in terms of the analysis performed. The analysis of consumer time saving does not take into account that a consumer may be required or willing to put some effort or time into achieving a better value outcome for themselves. To quote an example, a person who may spend time shopping around for a deal, or be willing to wait until one supplier has stock of an item.

#### **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?**

These are difficult figures to assess. Only 27% of respondents cited that switching takes too long. Speeding up a process does not allude to the fact that it makes it less complex or risky. In essence speeding up a process can actually serve to make it more risky. Making the consumer perceive that switching is "less hassle" or "easier" does not necessarily correlate directly with speed. Disengaged customers often hold little or no interest in an essential service that is a vanilla product with no actual variation in the product from any supplier. This leads Suppliers to compete in different sectors, ie. Customer service, reputation, product innovation and not just price. Many consumers gain more comfort from a brand/reputation/fashion/sponsorship deal/company perception rather than just the best value deal. In simple terms consumers will pay for a brand or name and if they like it, often stick with it regardless of its value. Customers may be willing to pay more for the same product based on

their perception, we do not believe that there is empirical evidence to suggest that faster or more reliable switching in a market where there is a significant lack of trust of energy Suppliers based on poor press, will encourage a significant amount of the market to switch.

In our view increasing the speed of switching will mean that those customers who already switch regularly will continue to do so, only faster, and gain any benefit available. It does nothing to resolve the issue of customers who do not switch. There are still a portion of customers who believe that a failed switch may result in a disruption in their actual supply which again is where customer engagement from a trusted source is required. Successful engagement of customers is an industry wide issue which is difficult to resolve through competing suppliers and requires a holistic or central approach similar to the Smart Energy GB awareness campaign.

## **Impact Assessment: CHAPTER 6**

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

Many of the wider benefits would depend on market reaction and customer appetite for innovation and changes. We are encouraged that this section recognises that neither the speed nor reliability of switching is the main driver of consumer switching. It is our belief that engagement is the key to improving the level of switching within the market. Energy is a hot political topic with considerable press coverage only serving to increase distrust of Energy Suppliers. By presenting a coherent and united view to a consumer from the Government more people may be encouraged to switch. An independent advertising campaign similar to the Smart Energy GB campaign may achieve an increase in switching rates for a smaller investment.

Increased competition that may be generated from faster switching times will require innovation and a sensible approach to regulation to achieve it. For example increased switching may equal shorter “contracts” increased billing and as stated consumers may wish to be supplied by different Suppliers on differed days of the week. We urge caution as the current regulation regime may result in increased costs as all of the Suppliers involved would be required to provide various services including billing, contracts and this approach requires a high level of administration. Without significant changes to the current model this could actually increase costs for the consumer.

## **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 range for net direct and indirect benefits to consumers of £169mn to £1056mn shows a considerable spread. Whilst in principle the theory of Suppliers passing through costs to customers will be offset by more customers saving money from moving from SVT tariffs the calculation seems not to take into account the cost of innovation by Suppliers to support faster switching and deliver consumer’s expectations. The energy retail market is changing rapidly and may be unrecognisable in 18 years’ time, therefore an 18 year payback period for an IT system to address a perceived issue now is a large risk to both suppliers and consumers. To minimise this risk there is a probability that suppliers may seek to pass through these costs earlier.

Increased innovation may also increase supplier’s costs and potentially act to reduce competition by becoming a barrier to entry. Based on the analysis presented applied equally to all four options RP2a does however present the most cost effective solution.

If you have any further questions on our response to this consultation please do not hesitate to contact me

Yours sincerely

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