

November 3, 2017

Dear Rachel,

Delivering Faster and More Reliable Switching: proposed new switching arrangements

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers¹.

Please find ICoSS' response to the above consultation below.

Chapter: Two

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

ICoSS is of the view that faster switching is unlikely to deliver significant benefit to non-domestic customers as they are generally unable to switch when minded to do so due to being in contract with their current supplier.

Therefore, the projected costs of delivery of RP2a seem very high when the reduced ability of non-domestic customers to avail themselves of faster switching is taken into consideration. ICoSS is also concerned by the fact that the Net Present Value (NPV) estimated by Ofgem for these benefits (£169m to £1.065bn) covers a very broad range due to largely being based on unquantifiable benefits which will not be capable of effective assessment until after the CSS is delivered.



Chapter: Three

Question 2: Do you agree that CSS should include an annulment feature which losing suppliers can use to prevent erroneous switches?

We are concerned that an annulment function is potentially open to abuse and could create a perverse incentive for suppliers to make use of this functionality for winback purposes. We would therefore suggest that the proposed annulment feature be removed from the CSS design.

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?

Yes, we believe that this will be useful additional functionality, particularly if our suggestion in response to Question 2 above to remove the proposed annulment feature is implemented.

Question 4: Do you agree that use of the annulment and CoO features should be backed by a strong performance assurance regime?

Please see our answer to Question 2 above. However, if the proposed annulment feature is to be part of the CSS, we agree that a strong performance assurance regime should be implemented to monitor this and potentially identify any unwarranted usage at an early stage.

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, we believe that a competitive tender is of the utmost importance to ensure that this is delivered in the most efficient manner possible. However, it would also be appropriate for the tender process and final decision to be approved by an industry panel made up of Ofgem, DCC, suppliers and transporters to ensure that the best value for money is achieved and that the successful bidder has the necessary technical capability to fulfil the contract.

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?

It would seem to be both inefficient and potentially costly for suppliers to be required to reconfigure their internal systems and processes twice in a three-month period, firstly to capture the five working day switching period during the transition window and then again to capture the final proposed one working day for domestic and two working day for non-domestic switching windows.

We would suggest that the current switching windows should be retained until Ofgem is satisfied that the market is ready for implementation of the final switching windows and believe that additional cost-efficiency will be achieved through this approach as participants will not incur the extra cost of reconfiguring their systems a second time.

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)?

This seems reasonable as a backstop approach to be captured within the supply licence although our understanding is that Ofgem will move to enshrine the proposed one working day and two working day switching periods within the licence in the case that a majority of suppliers do not move towards these within an acceptable timeframe. If this is to be the case, it would be helpful if Ofgem could communicate the time-period which it will be using to assess this.

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?

This seems reasonable from both a cost-saving and efficiency point of view, provided that the new REC replaces both the SPAA and MRA and does not result in the duplication of certain functionality within the industry.

If this is not the case, then ICoSS considers that the creation of a new code with a new set of administrative staff to deliver it and offices to house these staff will be an inefficient additional cost to market participants which is likely to be passed on to customers and would run counter to the general principle of cost-effective market administration.

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

Please see our answer to Question 8 above. If there is an opportunity to consolidate certain retail arrangements under the REC, thus replacing the SPAA and MRA and achieving cost-efficiencies in this respect, then ICoSS agrees that the proposed initial scope and ownership of the REC is suitable. However, it is imperative to avoid any situation whereby the REC comes into existence with SPAA and MRA being retained for the reasons discussed above.

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, DCC would seem the most appropriate body under the proposed framework to manage and support the DBT and operate the CSS. However, we have some concerns around the proposed initial management of costs for DBT through an ex-post plus price control framework as we feel that this does not necessarily create the proper incentives for economic efficiency on the part of DCC as Ofgem will review these costs after they have been incurred. We note that Ofgem states that it will seek to move to an ex-ante plus price control framework in the future but feel that DCC will be incentivised to achieve greater cost-efficiencies if an ex-ante plus price control framework is instituted from the outset. This will then help to avoid unnecessary additional cost and the undermining of the NPV benefit claimed by Ofgem in relation to the project.

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

Please see our answer to Question 6 above. However, if Ofgem determines that there should be a transitional window, it would seem appropriate for this to be underpinned by interim regulatory requirements applicable to this phase and for these to be contained within the REC.

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

We agree that the task of developing the REC, coupled with the amendment of other codes which the REC will fully or partially replace, will be a complex one. We therefore agree that it would be appropriate for Ofgem to lead an end to end SCR process to develop the REC and the necessary

changes to other associated codes to ensure that this is carried out in a suitably rigorous and co-ordinated manner.

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

We agree that the proposed Summer 2020 date for delivery of the REC and “business as usual” governance for the programme is challenging but achievable.

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?

Please see our answer to Question 1 above. We have some concerns that the proposed NPV range is so wide and that the actual costs and benefits will not be capable of being fully assessed until the delivery of the programme is completed. However, it would seem that RP2a is potentially a more cost-efficient option when compared to options RP2 and RP3.

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?

We agree that the options selected seem appropriate. We concur that mastering of agent IDs within the MPRS and UK Link legacy systems will be less likely to lead to a deterioration in data quality than the original proposal to manage agent appointments through both the CSS and the relevant legacy systems.

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?

While the direct benefits assessed by Ofgem provide a reasonable basis for selection, we remain concerned at the level of reliance on the indirect benefits which remain difficult to accurately quantify at this stage and which form the significant majority of justification for the implementation of the

overall reform package. ICoSS remains of the view that these will provide a lesser degree of benefit to non-domestic customers than to domestic customers for the reasons described in our answer to Question 1 above.

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?

As previously mentioned, it remains to be seen to what degree the indirect benefits assumed by Ofgem will result in actual quantifiable consumer benefit following the implementation of RP2a. We are therefore unable to assess at the current stage whether these provide a reasonable assessment of the potential scale of savings that could be made by consumers, particularly when the differences between domestic and non-domestic customers are taken into consideration.

Impact Assessment: Chapter 6

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

It is unclear as to whether faster switching will necessarily translate into a higher degree of customer switching and what level of benefit this will provide. ICoSS remains of the view that any benefit resulting from implementation will apply more to domestic customers than to non-domestic customers and that this may not therefore justify the level of cost to this sector.

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?

Please see our answers to Questions IA 4 and IA 5 above.

I trust this response will prove useful, please do not hesitate to contact me should you have any questions or require any further information.

Yours sincerely,

Chris Hill / chris@icoss.org / 07776 137403