

Switching Programme: Outline Business Case

Business case and Blueprint phase decision

Publication date: 12 Feb 2018

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Overview:

This document sets out our decision to implement changes to the switching arrangements that will enable consumers to switch their energy supplier reliably and quickly, including by the end of the next working day if they choose, by simplifying and harmonising the gas and electricity switching arrangements in a cost-effective manner.

We have consulted and decided to overhaul the switching arrangements by introducing a package of reforms known as RP2a. This will require the Data Communications Company (DCC) to procure a new Centralised Switching Service (CSS) that will facilitate reliable and fast switching across gas and electricity markets.

This Outline Business Case is an update to the Strategic Outline Case published in January 2017. In addition to describing our chosen package of reforms and the analysis that has led us to this decision, it provides information on how new services will be procured and funded and how we intend to deliver the programme. It provides information to allow industry stakeholders to understand what changes they will need to make to their systems and processes and to plan for these changes. Our aim is to provide a complete picture of our progress, including what decisions have been made on reform proposals and our latest thinking on areas such as delivery.

Foreword



I'm pleased to announce our decision to implement some important changes to the switching arrangements.

They will let consumers switch energy supplier quickly and reliably – and by the end of the next working day if they want.

There's long been a perception that switching is a hassle, and unreliable. Worse, that the anticipated savings consumers will make from switching won't come to fruition. People's negative experiences and the anecdotal evidence they hear from others only serve to reinforce these perceptions. And so consumers remain disengaged, missing out on the benefits that switching could provide.

The current switching arrangements were largely designed for a more analogue age. But the advent of smart meters, half-hourly settlement, price caps, and more fundamental changes to the energy system itself, means the time is right to reform the switching arrangements too.

It can currently take a few weeks to switch supplier, but with the changes we're making to overhaul the system, it will be much quicker and much more reliable. Where some switches used to go wrong (to the wrong supplier or at the wrong time), these will drop dramatically as the systems become more accurate.

We will always do our best to protect customers who don't switch from overpaying for their energy, but through the switching programme we will make it easier for those who do to save even more.

The changes we are making involve harmonising and simplifying the switching arrangements. For the industry, we believe these changes will support innovation and increased competition. I'm calling on industry to now start putting in place the practical arrangements to deliver these changes.

Everyone, including energy suppliers, those responsible for networks and those who provide the systems used for switching now, will need to work with Ofgem to plan and deliver this change as quickly and efficiently as possible. As we publish this decision, and the detail of the design for the new switching arrangements, this work now needs to start in earnest.

Ultimately, this will drive prices down for consumers and leading to better quality services – so the market works better for everyone.

I look forward to working with you as we implement these reforms.

DERMOT NOLAN

Context

The Switching Programme is one initiative within a broader set of reforms that aim to encourage consumers to engage with the energy market, and to improve their experiences of doing so.

The roll-out of smart meters, reform of electricity settlement arrangements, work to facilitate a transition to a more flexible energy system and other projects have the potential to transform the retail energy market. Our Switching Programme reforms are being developed to align with, support and leverage the benefits of these related initiatives. Our work is also aligned with the Competition and Markets Authority's (CMA) energy market investigation remedies, which aim to improve the functioning of competition.

Associated documents

Ofgem, [Delivering Faster and More Reliable Switching Final Stage Impact Assessment](#), February 2018

Ofgem, [Data Protection Impact Assessment](#), February 2018

Ofgem, [Delivering Faster and More Reliable Switching: proposed new switching arrangements](#), September 2017

Ofgem, [Delivering Faster and More Reliable Switching: proposed new switching arrangements: Consultation stage impact assessment](#), September 2017

Ofgem, [UK Link and the proposed Central Switching Service](#), July 2017

Ofgem, [Strategic Outline Case](#), January 2017

Ofgem, [Moving to reliable and faster switching: Switching Significant Code Review launch statement](#), November 2015¹

Baringa Partners, [Viability Assessment Report - Summary Report on the Viability of Reusing Existing UK Energy Switching Solutions for CSS](#), February 2018

¹ Further documents can be found in the associated documents sections of the documents noted above.

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Executive summary

We are committed to making the energy market work better for consumers by improving their experience of switching, leading to greater engagement in the retail energy market. We are doing this by designing and implementing a new switching process that is reliable, fast and cost-effective and harmonises processes across gas and electricity. This will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

In September 2017 we consulted on our proposed package of reforms. This document sets out our decisions on the new switching arrangements, including our decision on each of the consultation questions. **Specifically, we have decided to move ahead, as proposed, with reform package RP2a.** Our reforms will deliver next-day switching as a new industry standard and improve reliability of the switching process through reducing complexity and better management and oversight of industry data. It will introduce new, flexible, harmonised dual-fuel systems which can respond to the significant changes already underway in the energy market.

We will shortly publish a set of documents setting out at a more detailed level how the new arrangements will work and what the implications are for all parties concerned. Together with parts of this document and some documents relating to security, these will constitute our Design Baseline 3.

Rationale for intervention

We believe competition – combined with price protection for those who need it most – is the best way to drive down prices and drive up customer service for all consumers over time. In a properly competitive market, we would expect the threat of losing customers means suppliers offer all their customers – including those on standard variable tariffs – a good deal. For a market to be competitive, it is vital that consumers can be confident that they can change their energy supplier easily and quickly, or else they may choose not to do so.

However, the current switching processes can be unreliable and slow. They were designed in the last century, and in some instances rely on outdated IT systems. The underlying data is poorly managed and this results in errors and problems during the switching process, in particular delayed, failed and erroneous switches. This is unacceptable for today's energy market. These outcomes cause direct consumer detriment and create a consumer perception that switching is a hassle. Our consumer research confirms that this hassle factor is one of a number of reasons driving consumer disengagement in the energy market. Switching currently takes on average two to three weeks, which compared with other markets already looks slow and out-of-date, while consumer expectations are rising thanks to new technology. By contrast, switching mobile phone providers currently takes only up to two days

and, following a recent decision from Ofcom², will be within one working day from mid-2019, while current account switching, with a guarantee of reliability, takes seven.

We are also concerned that the energy retail market is not working for all consumers. In particular, the 60% of households³ who have not recently, or ever, made an active choice about their energy tariff are paying more than they should.

The Government has announced its intention to legislate for a cap on default tariffs. This temporary measure will be in place to allow reforms, like the Switching Programme to be implemented and for the smart meter rollout to complete. These reforms will put the conditions for successful competition in place, where all customers get good outcomes from the market. A harmonised, flexible switching process, that delivers faster and more reliable switching, and that can support and adapt to innovation and new market models is an essential condition for effective competition.

Not everyone needs to switch for the market to work well and for there to be wider consumer benefits. Increased switching will exert additional competitive pressure on suppliers, causing them to consider the prices they charge for all their customers and the services they provide, for fear of losing market share. These indirect, dynamic competition benefits are significantly greater than the – still important – direct consumer benefits from faster and more reliable switching.

The energy market is facing rapid change: the rollout of smart meters, more players entering, more new non-traditional business models, exponential technological development and applications in the sector leading to more new products and services being offered to customers. We cannot predict where the innovation of the future will come from, but we consider that retaining the old existing arrangements and a three-week switching process will hold back innovation and act as a disincentive for new entrants. Neither the existing arrangements in the energy sector, nor all of the underlying systems, are flexible enough for the changing market.

We will introduce faster and more reliable switching that will unlock innovation, create more competitive pressure and improve outcomes for consumers, both in price and quality of service. We want those benefits to be enjoyed by all consumers. The new arrangements will be fit for the changing future.

The Switching Programme is part of a range of interventions Ofgem is making to help people and businesses to engage in the energy market. We are leading this programme because there are few incentives for industry players to drive a thorough reform of the switching arrangements to reduce the barriers to switching. Within the current regulatory and industry code framework, industry is unable to deliver major reform programmes of this nature.

² https://www.ofcom.org.uk/data/assets/pdf_file/0023/108941/Consumer-switching-statement.pdf

³ https://www.ofgem.gov.uk/system/files/docs/2017/10/state_of_the_market_report_2017_web_1.pdf

Reform Package

We published an Impact Assessment alongside the September consultation, which analysed the costs and benefits of the proposed reforms. Where reasonable and appropriate, we have updated and refined the analysis to reflect comments received in response to the consultation. The revised Impact Assessment is published alongside this document. Our analysis of the full range of expected impacts gives us confidence that our chosen reform package (RP2a – reliable next-day switching) will deliver significant net benefits for consumers. Our assessments of the monetised and non-monetised impacts each, in isolation, offer strong grounds for intervention. When combined, the case for the proposed intervention is very clear. We have also employed a number of techniques within our analysis to demonstrate that this conclusion is robust to a wide range of potential assumptions and future developments in the market.

In our chosen reform package (RP2a) the switching functionality that currently exists in separate gas and electricity switching services would be replaced with a single Central Switching Service (CSS). We will harmonise and speed up the processes in gas and electricity so that consumers can submit a request to a supplier to switch and be with that supplier by midnight the following working day. The process for a non-domestic consumer would take an additional working day.

The CSS will be responsible for making sure meter points are accurately matched to premises addresses from an authoritative GB database. Gas and electricity switching processes will be harmonised where appropriate. In gas, suppliers will initiate a switch, rather than shippers as is currently the case. Should a supplier wish to object to a customer loss, they will have until 5pm on the next working day to do so for a domestic customer, and until 5pm on the second working day for a non-domestic customer.

We believe that introducing reliable next-day switching best meets the programme objectives at an acceptable cost. In particular, it will deliver dynamic competition and innovation benefits.

Licence changes

The arrangements we will put in place will support next-day switching from the start. However, we do not plan, at this stage, to require suppliers to switch customers next-day. We consulted on proposals for a regulatory backstop to require suppliers to switch customers within five working days of entering into a contract, subject to appropriate exceptions including, critically, when the customer has requested a later date. We have decided to introduce this requirement and will consult on detailed wording in due course. We expect that competition and customer choice will result in next-day switching becoming the norm. Should that not be case, we will consider whether it is necessary to further tighten the switching speed requirement in the supply licences.

We consulted on whether DCC's licence should be extended to include an explicit requirement to oversee the design, build and test of the CSS within the programme

and to operate the CSS in its early years. We have concluded in principle that DCC's licence should be extended in this way. We will consult on the precise wording of the new licence obligation, and appropriate price control arrangements, in early summer.

We will move ahead with the creation of a Retail Energy Code (REC) as described in the consultation. We will consult on detailed proposals on its objectives, governance, structure, ownership and funding in early summer. We expect, at the same time, to consult on the bulk of the provisions that will establish both the transitional and the enduring regulatory framework.

Response to UK Link consultation

This document also includes our response to the July consultation on UK Link and the proposed CSS. Following that consultation, we commissioned a technical assessment of the capability of both UK Link and the Meter Point Registration Service (MPRS) to form the basis of the CSS. We have concluded that there are no inherent technical obstacles to either UK Link or MPRS being used as the basis for the CSS and that either might offer significant benefits in terms of reducing costs and delivery risk. Consequently we have concluded that it is important that the procurement process should allow existing systems to be considered fairly alongside any new build options. We will work with DCC to ensure that the procurement process and the evaluation criteria do not unfairly benefit or penalise existing systems or discourage new entrants or existing providers from bidding. At the same time we will work with Xoserve to ensure that any governance constraints that might make it difficult for it to bid for, or operate, the CSS are addressed effectively.

Next steps

This decision confirms our intention to move forwards with putting new switching arrangements in place. The programme will now move into the Enactment phase, during which DCC will proceed with the procurement of the required new systems and services and the Ofgem-led Regulatory Design workstream will develop the new licence and code requirements for consultation in the early summer.

The new switching arrangements will require many industry parties, including existing industry system providers, energy suppliers and others, to make changes to their own processes and how they interact with industry systems and each other. We will shortly publish documents setting out in more detail how the new arrangements will work and what the implications are. We believe that this documentation will allow all parties to understand what changes are required of them and to start to plan and mobilise to deliver them. At the same time Ofgem will begin to put in place the appropriate structures and support for the design, build and test (DBT) phase of the programme.

1. Introduction and summary of decisions

About this document

1.1 This document fulfils a number of purposes:

- At a headline level it sets out our decision to move forward with the introduction of a new CSS and new switching arrangements. This serves as a call to action to all those who will need to make changes to their own systems or processes in order to implement the new switching arrangements, and signals a move from the Blueprint and Detailed Level Specification (DLS) phases of the programme to the Enactment phase.
- As a whole, it constitutes the Outline Business Case for Ofgem’s Faster, More Reliable Switching Programme. That means that it sets out the strategic, economic, financial, management and commercial cases for what the programme is proposing to do. This requires a full description of the programme’s objectives, how we propose to deliver them, the resources that will be required, and the benefits that will be achieved. In order to be comprehensive, this includes material that also featured in previous programme documents, in some places updated to reflect changes in the retail energy market, policy, or the evidence available to us.
- It provides information about decisions that have been made in the programme over recent months. These decisions follow the publication of two consultation documents: one on the use of existing industry systems as the foundation for future switching system in July 2017, and another on the overall way forward for the programme in September 2017 (see the Associated Documents section above). For those who are familiar with the history of the programme and are mainly interested in these latest decisions, we have summarised the decisions related to both consultations in paragraphs 1.20-1.25. We have also provided full analyses of consultation responses from stakeholders and our reaction to those in Appendix 1.
- It describes our latest thinking on some areas of the programme’s work where we have not previously published information (particularly on the co-ordination and assurance functions in chapter 7).
- Finally, it provides information on which the operators and users of current and future switching systems can take action to work with the programme on preparing for the implementation of the new arrangements. This is the case, for example, with the material on delivery that we will publish alongside this document and material on end-to-end design that we will publish shortly.

1.2 This document is aimed at readers with some previous understanding of the retail energy market, its systems and processes, as well as some involvement in the Switching Programme. Most of the chapters and appendices are written for parties that will be required to take action as a result of the programme. Those without

direct involvement in the programme will probably find that the Executive Summary provides the information that will be most useful to them.

Developing our business case

1.3 We are leading the Switching Programme to improve consumers' experiences and perceptions of changing supplier, so that they engage more in the retail energy market. We will achieve this by designing and implementing new switching arrangements that are reliable, fast and cost-effective. This will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

1.4 We have developed, and are maintaining, a business case throughout the life of the programme that will not only aid the decision-making process, but will also be a tool for communicating with stakeholders. This document is meant to be read by industry stakeholders that are directly or indirectly impacted by the programme. It is designed to enable these stakeholders to understand what changes they will need to make to their systems and processes and to allow them to plan for these changes.

1.5 In January 2017 we published the first iteration of our business case (the Strategic Outline Case), which focused on developing the strategic and economic cases for reform.

1.6 In line with HM Treasury's Green Book guidance⁴, the purpose of Strategic Outline Case was to confirm the strategic context of the proposal and to make a robust case for change, providing stakeholders and customers with an early indication of the "preferred way forward" (not the preferred option).

1.7 We are now publishing the second iteration of our business case, the Outline Business Case. It builds on the Strategic Outline Case and takes into account responses to a consultation, with supporting Impact Assessment (IA), on our preferred reform package that we published in September 2017.

1.8 The purpose of the Outline Business Case is to revisit earlier Strategic Outline Case assumptions and analysis in order to identify a "preferred option" which demonstrably optimises value for money. It also sets out the commercial framework; demonstrates its affordability; and details the supporting procurement strategy, together with management arrangements for the successful delivery of the proposal.

1.9 In this Outline Business Case, we describe our decision to implement a package of reforms (RP2a) and the arrangements for successfully procuring and delivering these changes as well as the commercial, financial and regulatory arrangements.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469317/green_book_guidance_public_sector_business_cases_2015_update.pdf

1.10 In line with HM Treasury's Green Book guidance, our business case is presented in five main sections. These are:

- The **strategic case**: the strategic context for the programme and our case for change. This includes the rationale for why we are proposing to intervene, and an explanation of the outcomes we are seeking to achieve.
- The **economic case**: how we have assessed impacts and selected a preferred option.
- The **commercial case**: the intended approach to the procurement of the new systems, services and infrastructure required by our chosen reforms.
- The **financial case**: how this procurement activity and the wider programme delivery and operating resources will be funded.
- The **management case**: the actions that will be required, and by whom, to ensure successful delivery of the reforms, including establishing a new industry code.

1.11 We have published an IA alongside this Outline Business Case. The IA was consulted upon in September 2017 and describes the analysis that has led us to select RP2a as the preferred option. Where reasonable and appropriate, this updated IA takes into account the feedback received in response to the September consultation. There are some issues or developments in the market, such as the proposed temporary price cap for default tariffs, about which not enough is known at this stage for us to make reasonable adjustments to the analysis. We have demonstrated through our analysis that our conclusions and decision would be unaffected had it been possible to make such adjustments.

1.12 We will publish the Full Business Case in Q2 2019 after procurement of new systems and services is complete. That is expected to be the last published iteration of the business case.

1.13 The purpose of the Full Business Case is to revisit, and where required, rework the Outline Business Case analysis and assumptions, building in and recording the findings of the formal procurement. This case at its conclusion will recommend the "most economically advantageous offer", document the contractual arrangements, confirm funding and affordability and set out the detailed management arrangements and plans for successful delivery and post evaluation.

1.14 If there will have been material changes to our IA between the publication of the Outline Business Case and the Full Business Case, we will publish updates. We also expect to publish a further update to our IA alongside the Full Business Case. Future iterations of the IA will take account of price controls in the market so long as there is sufficient certainty on their design to be able to do so.

Design Baseline 3

1.15 This Outline Business Case is also the third iteration of our published design ('Design Baseline 3'). In the appendices to this document, we have included a

summary of the requirements of RP2a for each stakeholder as well as detailed delivery products. We will shortly also publish a full set of detailed design products. These should help stakeholders to plan for mobilisation of their delivery requirements.

1.16 Design Baseline 3 comprises the following:

- RP2a description (see Appendix 6)
- Reform package summary spreadsheet (see Appendix 5)
- E2E design products (see Appendix 3 for a summary. The products will be published shortly)
- Delivery products (see Appendix 4)
- Security products

1.17 Any changes to the components of Design Baseline 3 will be managed through formal programme change control and will require approval by the Switching Programme Senior Responsible Owner (SRO). Where any changes are agreed by the SRO, we will publish a notification on our website and seek to bring it to the attention of relevant stakeholders.

Responding to stakeholder views

1.18 To inform this Outline Business Case we have issued formal requests for information to industry stakeholders (in January 2017 and June 2017), and undertaken extensive industry engagement. We also requested stakeholder views through these two consultations:

- In July, we consulted on whether there would be unique benefits, in the form of lower external costs to industry and lower delivery risk, from the re-use of UK Link as the CSS than from a new-build CSS.
- In September we consulted on our preferred option as well as on other questions to support the design and regulatory arrangements for the programme.

1.19 We welcome, and are grateful for, the strong support and engagement that we have received. Appendix 1 summarises stakeholder views from the above two consultations. It also sets out our responses to these views and describes how we have taken them into account in making our decision to progress RP2a and in developing this Outline Business Case. Below we set out the decisions in brief.

Summary of Decisions

Consultation on UK Link and the Proposed Switching Service

1.20 In addition to considering responses to the consultation we also commissioned a technical assessment of the capability of both UK Link and MPRS to form the basis of the CSS⁵. We have concluded that there are no inherent technical obstacles to either UK Link or MPRS being used as the basis for the CSS and that either might offer significant benefits in terms of reducing costs and delivery risk. Consequently we have concluded that it is important that the procurement process should allow existing systems to be considered fairly alongside any new build options. We will work with DCC to ensure that the procurement process and the evaluation criteria do not unfairly benefit or penalise existing systems or discourage new entrants or existing providers from bidding. At the same time we will work with Xoserve to ensure that any governance constraints that might make it difficult for it to bid for, or operate, the CSS are addressed effectively.

Consultation on proposed new switching arrangements (September 2017)

1.21 We asked whether our analysis that RP2a provided the best value was supported.

- Decision (Question 1): Based on the strong support that we have received for RP2a and our analysis that this represents the best value option we have decided to take forward RP2a.

Our decision also takes into account responses to Question 1 and 3 to 6 relating to our Impact Assessment where parties provided views on our analysis and approach.

1.22 We asked a number of questions relating to the detailed design of systems and processes for switching in the future.

- Decision (Question 2): We have decided that the CSS should include an annulment feature which losing suppliers can use to prevent erroneous switches. Given our reservations about the potential for misuse, we expect the CSS to be developed so that the process can be easily turned off.
- Decision (Question 3): We have decided that the CSS should invite the losing supplier to raise an objection, even where the Change of Occupancy indicator has been set. Again, given our reservations about the potential for misuse, we expect the CSS to be developed so that the process can be easily turned off.

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https://www.ofgem.gov.uk/system/files/docs/2018/02/viability_assessment_report_summary_report_on_the_viability_of_reusing_existing_uk_energy_switching_solutions_for_css.pdf

- Decision (Question 4): We will put in place a strong performance assurance regime for the annulment feature and the use of objections where a change of occupancy indicator is set. We will develop this further, taking into account consultation responses.
- Decision (Impact Assessment Question 2): We have decided that suppliers will have a one-working-day objections window for domestic consumers and a two-working-day objections window for non-domestic consumers. Consumers who cancel their contracts during the cooling off period will be given a choice as to whether to return to their previous supplier (Supplier A) on equivalent terms as they would have been on had they not moved, move to a new supplier, or stay with their current supplier (Supplier B). CSS will not send notifications of a switch to the gaining metering agents and instead we will retain existing agent appointment and de-appointment processes, and we will not include the Meter Communications Provider (MCP) ID as a new data item in industry arrangements.

1.23 We asked whether consultees supported a competitive procurement of the communications network capability for future switching arrangements by DCC.

- Decision (Question 5): We have decided to explore an alternative approach under which the CSS would be designed to be able to communicate with users over any existing industry networks (such as the Data Transfer Network (DTN) or the Information Exchange Network (IX)⁶), or other networks to be added subsequently, at the choice of the end user.

The new approach raises a number of questions which we have not yet had time to explore in detail around the technical, commercial, financial, and governance issues that might arise. We plan to explore those issues, including with providers of existing networks, and DCC potentially conducting a market testing exercise, before reaching a final conclusion on the best approach for communications network capability for the CSS. We do not intend to consult further on this issue before making a decision as we are confident from the responses to the previous consultation that either approach (competitive procurement or use of existing networks) would be appropriate to pursue.

1.24 We asked a number of questions relating to the regulatory requirements for switching speeds in the future.

- Decision (Question 6): We have decided to implement a transitional period with the expectation of five-working-day switching to test the impact of data improvement remedies on the erroneous switch rate. That transitional period should be long enough to get robust data on the rate of successful switching.

⁶ The DTN is a messaging and communications network that supports data transfer in the electricity and gas industry. The DTN is managed by Electralink. The IX Network facilitates file transfers between various critical systems and shippers in the gas industry. It is managed by Xoserve.

We will establish objective criteria to demonstrate that moving from a five-working-day default switch to a next-day default switch would not have an unanticipated impact on the rate of erroneous switches. The transitional period will end once those criteria are met. We will publish in due course proposed criteria for ending the transitional period.

We continue to believe that suppliers should be able to switch faster than five working days, and up to the next working day, during the transitional period if they can do so without harming consumers. We will publish, in due course, proposed obligations that suppliers would have to meet if they wish to switch customers faster than five working days during the transitional period or penalties for switching a customer erroneously.

- Decision (Question 7): We have concluded that we should introduce a requirement to switch a customer within five working days of entering into a contract, unless the consumer has requested a later date.

This requirement will apply to domestic and non-domestic consumers. We note that most, and in particular most large, non-domestic consumers will request a switch date some way in advance. This is entirely consistent with an obligation to switch a consumer within five working days unless the consumer has requested a later date.

The requirement will apply to pre-payment meters. Suppliers should put processes in place to ensure that top-up keys can be received by consumers within the five working days.

We will consider what reporting requirements should be put in place to demonstrate compliance. We will consult in due course on the wording of the licence requirement, including exceptions, and the proposed reporting requirements.

1.25 We asked a number of questions relating to the creation of a dual fuel REC, its scope, governance and management, as well as the nature of the Significant Code Review (SCR) processes to enable faster, more reliable switching and changes to the DCC's licence.

- Decision (Question 8): We will take forward the proposal to create a dual fuel REC. We did not receive any additional information to suggest there was a more suitable alternative to creating the REC to govern the new switching processes and related energy retail arrangements.
- Decision (Question 9): We will now conduct a thorough exercise to be able to produce a logical, objective, ring fenced 'initial scope' and work through the various suggestions we have received on this. We continue to believe the initial scope is likely to sit somewhere in between the two extremes of full Supply Point Administration Agreement (SPAA)/ Master Registration Agreement (MRA) replacement and CSS-only requirements.

We welcome the strong support from parties on our proposal that gas and electricity suppliers should own the REC. We recognise the interest in further understanding the specific role of network operators in the REC and, although we fully expect them to accede to the code, details around funding options and their role in the code governance processes are being further developed.

We will continue to drive forward the set-up of governance for this until a new or existing code administrator is assigned this coordination role.

- Decision (Question 10): We have decided in principle to extend DCC's licence obligations to cover the DBT phase and early years of operation. We will develop the detail of the necessary change to the DCC licence with input from programme stakeholders. We intend to consult on the proposed new licence requirement in early summer 2018.
- Decision (Question 11): We will create transitional requirements for the period in which the new switching arrangements will be developed and put in place, underpinned by regulation in the REC.
- Decision (Question 12): We will run an Ofgem-led SCR process.
- Decision (Question 13): We will work in line with indicative timelines for the new governance framework set out in the consultation document⁷. We will keep timelines under review as our planning becomes more detailed.

⁷ Pages 69 and following of the consultation document:
https://www.ofgem.gov.uk/system/files/docs/2017/11/delivering_faster_and_more_reliable_switching_consultation.pdf

2. Strategic case

Chapter summary

This chapter is a revised and updated version of information provided in the Strategic Outline Case in January 2017 and the Impact Assessment published in September 2017. We have restated it here in full to ensure that this Outline Business Case is a comprehensive statement of our thinking.

The strategic case sets out the case for change and the context within which changes will be made. It also outlines the objectives of the programme.

2.1. Currently, switching energy suppliers can take a long time – on average around two to three weeks but in some instances much longer. The switching arrangements are inefficient and can result in consumers being let down by delayed, unsuccessful or unwanted (referred to as erroneous) switches. Consumers generally perceive switching suppliers as a hassle and the fear of something going wrong during a switch can discourage some from engaging with the market.

2.2. Our Switching Programme aims to improve consumers' experience of switching by implementing a new switching process that is fast, reliable and cost-effective. The changes we have decided to make to simplify and harmonise the switching arrangements should ensure that consumers are confident that they can switch supplier easily and quickly. In the following sections we set out:

- our case for change;
- the objectives and scope of the programme; and
- the strategic context within which the programme changes will be made.

The case for change

2.3. A fast, reliable and effective switching process should underpin an effective energy market where competition benefits consumers. It should support consumer engagement so that they are confident that they can change their energy supplier easily, reliably and quickly.

2.4. The current switching arrangements are slow and can have unreliable outcomes for consumers. They are not as streamlined or efficient as they could be, particularly in light of several important changes currently underway that could reshape the retail energy industry. In this section, we describe three issues we have identified with the current switching arrangements which can have a negative impact on consumers' experience and perception of the switching process:

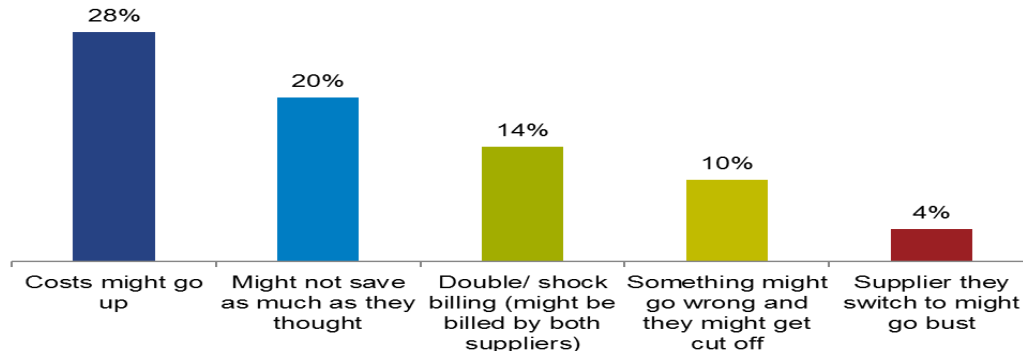
- unreliable consumer outcomes;
- slow speed of switching; and
- inefficient and outdated switching and governance arrangements.

Unreliable consumer outcomes

2.5. We know that a key barrier to consumer switching is the expectation that something might go wrong. Though the majority of switches do go through without complications, the risk that something will go wrong for consumers is real, and the consequences can cause consumers significant worry, stress and frustration, as well as costing them time and money.

2.6. In response to Ofgem’s Consumer Survey, 41% of consumers interviewed were worried that something would go wrong when switching supplier.^{8,9} In response to the same survey, of those that have not switched supplier, 10% cited reliability as a reason for not doing so. Figure 1 below reports on the most common perceived risks these consumers identified. Although the primary fears are around the financial impact of moving to a new supplier, there are also significant concerns that the process will result in an adverse impact for them.

Figure 1: Most common perceived risks around switching energy supplier



Source: GKK (2017). Ofgem Consumer Engagement Survey

2.7. Evidence gathered by the CMA for its investigation into the Energy Market also found that the switching arrangements are unreliable and can lead to delays, errors and costs, which, in turn, may have an impact on customer confidence and the propensity to switch.^{10,11} In particular, a third of consumers it surveyed reported having encountered one or more difficulties with their switch. One of the most common difficulties was delays to the process, cited by 11% of all those who switched.¹²

2.8. Further evidence from a recent survey commissioned by Energy UK¹³ showed that, although the speed of the process is important to some consumers, confidence

⁸ [Ofgem 2017 Consumer Engagement Survey](#), 41% of respondent agreed with the statement that “I worry that if I switch something will go wrong”.

⁹ This percentage went up by 5% compared to Ofgem Consumer Engagement Survey (2016).

¹⁰ See [CMA Final report](#), para 9.194.

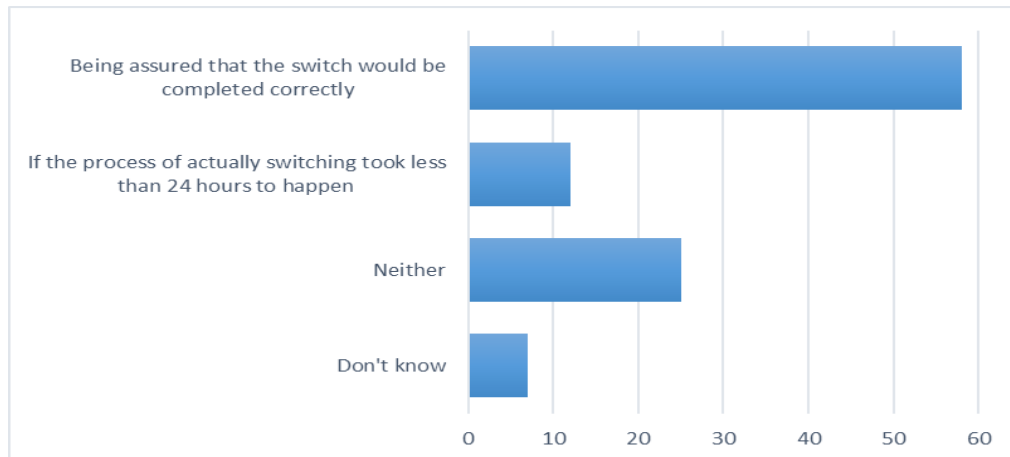
¹¹ See [CMA Final report](#), paragraphs 9.200-9.208.

¹² See [CMA Final report](#), para 9.194.

¹³ Figures are from YouGov Plc. Total sample size was 1,951 adults. Fieldwork was undertaken on 15-16

in the reliability of the switching process is a more influential factor for encouraging consumers to switch energy supplier.

Figure 2: Responses to the question “Which of the following would be most likely to encourage you to switch your energy supplier in the next year?”



Source: Survey by YouGov commissioned by Energy UK (2017)

2.9. As highlighted above, consumers’ perceptions of there being some risk involved in the process are often justified, particularly given the potential impact on them if something does go wrong.

2.10. We have focused on three potential negative outcomes that can occur when switches are initiated. First, a consumer could be switched in error without their consent (an erroneous switch). Second, a switch could take considerably longer than it is meant to (a delayed switch). Third, a switch may ultimately be unsuccessful. The incidence, and impact of these outcomes are summarised in turn below.

Erroneous switches

2.11. An erroneous switch can occur when a consumer requests a switch and the wrong meter point is identified, and as a result a different consumer, who had not requested a switch, is transferred to a new supplier, or when a supplier switches a customer where there is no legitimate contract in place.

2.12. We estimate that around 0.96% of domestic gas and electricity switches were erroneous in 2016, which is equivalent to an annual volume of 74,000.¹⁴ In the non-

March 2017. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

¹⁴ Based on data provided in response to our January 2017 RFI.

domestic market, our estimate of erroneous switches is 1.5% of total switches for 2016, which is equivalent to an annual volume of 5,800 erroneous switches.¹⁵

2.13. While the volume of erroneous switches is small in percentage terms, the CMA concluded that they have the potential to cause material detriment to those who suffer from them. It considered it might also have a wider effect on consumer engagement given the impact it might have on consumers' perceptions on the risks of switching going wrong.¹⁶ These findings are supported by those of recent research, commissioned by Ofgem, into the impacts on consumers of negative switching experiences, which found generally that '*negative experiences made customers view the suppliers they dealt with more dimly than before*' and '*their likelihood to engage and switch again was greatly reduced*'.¹⁷

2.14. Erroneous switches can have a seriously negative effect on consumers when they do occur. It can be confusing and distressing, for a consumer who is unexpectedly switched to a different supplier, potentially receiving a 'sorry to see you go' letter or email from their original supplier as well as potentially a final bill. Where the wrong meter point has been switched it will also affect the consumer who requested the switch, as they would continue to be supplied by their original supplier, but could start receiving bills and potentially paying for the supply to two premises. For a consumer on a prepayment meter, it may lead to difficulty in topping-up and in extreme cases to a consumer going off supply if they don't have the necessary information from the new supplier due to confusion over which account has switched.

2.15. It can then take a significant amount of time to identify an erroneous switch and, once it has been identified, suppliers have 20 working days to contact the consumer to confirm to them that they will be returned to their original supplier.¹⁸ The switch reversal is processed in the same way as a 'normal' switch. This means a lot of time can elapse from when an erroneous switch happens to when it is corrected, and this manually intensive process is expensive for suppliers to operate.

Delayed switches

2.16. Delayed switches are switches that, without valid reason (such as an objection or the consumer requesting a later switch date), are not completed within the existing 21-day requirement. There are a number of potential reasons for a switch being delayed, but our analysis suggests that many are caused by the need to verify data or gather further information regarding a consumer's address, meter point or meter type.

¹⁵ Based on data provided in response to our January 2017 RFI.

¹⁶ See [CMA Final report](#), paragraphs 9.200-9.208.

¹⁷ [Ofgem 2017 research on unreliable switching](#)

¹⁸ Requirement set out in the Erroneous Transfer Customer Charter which are described in the SPAA and MRA industry codes. See for example MRA MAP10, section 1.4. <https://www.mrasco.com/admin/documents/MAP10%20v3.4%20-%20The%20Procedure%20for%20Resolution%20of%20Erroneous%20Transfers.pdf>

2.17. Based on our analysis of industry data for 2016, we have estimated that approximately 1.4% of domestic switches are delayed each year because of poor-quality address data (around 105,000 each year in total). Delayed switches can be frustrating for the consumer as things haven't gone as they expected, but also because often it will involve further unexpected communication and effort from them. We recently commissioned research from Populus into the impacts on consumers of negative switching experiences. It revealed that delays with switches can sometimes be very protracted affairs, where consumers have *'had to make numerous attempts to resolve or mitigate the issues involving regular chasing of the suppliers'*.¹⁹ Also, while a switch is being delayed, a consumer is being prevented from moving to their chosen terms, and may, for example be needlessly overpaying for their energy consumption.

Unsuccessful switches

2.18. Unsuccessful switches are switches which are abandoned by the gaining supplier or the consumer before a switch takes effect. Most switches are abandoned by the consumer or gaining supplier due to discrepancy between the information provided by the consumer and that held by the supplier or by central switching systems.

2.19. Our analysis of data provided to Ofgem in response to our January 2017 Request for Information suggests that around 140,000 domestic switches were abandoned in 2016 due to issues with data quality. Many of the consumers affected may try again and ultimately be successful, meaning they are able to achieve the desired savings, though on a delayed timescale, but they will have wasted time on the initial unsuccessful switch. Many others will be put off by the process and give up, or the problem will continue to prevent them from switching. These consumers miss out on the savings they would have achieved from a successful switch.

2.20. Our recent research into the impacts on consumers of negative switching experiences found that *'in the case of failed [or unsuccessful] switches, customers had to put in a high degree of effort as they often had to investigate technical details, submit additional information and chase both current and old suppliers, acting as a go between in some cases'*.²⁰

2.21. One of the main causes of these negative outcomes for consumers is inaccurate matching of meter point and address data. By improving the quality of this industry held data, and introducing arrangements that maintain this quality over time, we can significantly reduce the instances of these negative experiences for consumers.

¹⁹ [Ofgem 2017 research on unreliable switching](#)

²⁰ [Ofgem 2017 research on unreliable switching](#)

Slow speed of switching

2.22. Currently, switching energy suppliers can take a significant amount of time – on average around two to three weeks but in some instances much longer. Even when the process works well, it is slow compared to other sectors such as mobile telephony, where switching takes one or two days currently and, following a recent decision from Ofcom²¹, will be within one working day from mid-2019; and banking, where switching is possible in seven working days.

2.23. It is also slow compared to some international markets such as France, where switching is possible in one day for electricity and four days for gas, or Australia, where changes are being made to enable switches for electricity to be made at the end of the following day. Faster switching (24 hours) in energy markets is also being proposed in a draft European Directive on common rules for the internal market.²²

2.24. The current long switching times are, in part, due to the existing arrangements for dealing with the statutory cooling off period (normally 14 days) and the relatively long window within which a losing supplier can object to a switch. Suppliers typically start a switch during the cooling off period but do not schedule it to complete until after the cooling off period has elapsed. This is to allow processes such as objections to complete and gives suppliers time to handle any contract cancellations.

2.25. The long switching process is likely to reinforce consumer perceptions that switching is complicated and not worth the hassle, which is likely to put some consumers off. In response to Ofgem's Consumer Engagement Survey, 27% of those interviewed considered that switching energy supplier would take too long,²³ and 46% considered switching a hassle.²⁴ Further, in response to a survey by Energy UK,²⁵ less than 5% of consumers considered that a switch time of greater than three weeks would be acceptable, while over 40% felt that it would not be acceptable for a switch to take longer than a week. Responses to this survey question are below.

²¹ https://www.ofcom.org.uk/_data/assets/pdf_file/0023/108941/Consumer-switching-statement.pdf

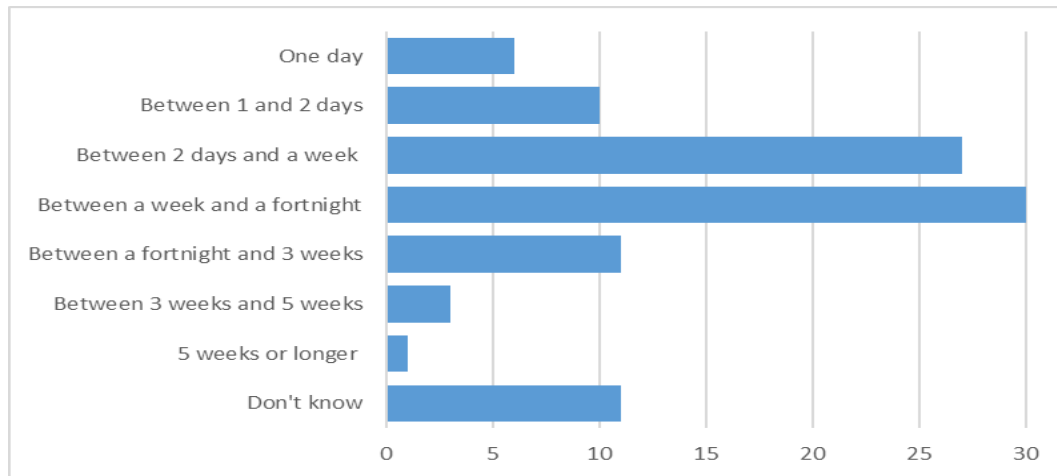
²² See Article 12 of the Proposal for a Directive of the European Parliament and of the Council on common rules for the internal market in electricity (recast): <http://data.consilium.europa.eu/doc/document/ST-15886-2017-INIT/en/pdf>

²³ [Ofgem Consumer Engagement Survey \(2017\)](#), page 52.

²⁴ 46% of respondents agreed with the statement that "switching is a hassle that I have not got time for." [Ofgem Consumer Engagement Survey \(2017\)](#). Questions 121.

²⁵ Figures are from YouGov Plc. Total sample size was 1,951 adults. Fieldwork was undertaken on 15-16 March 2017. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).

Figure 3: Responses to the question “Thinking about the switching process described above, what do you think would be the longest acceptable amount of time for this to happen between first requesting the switch, to having the supplier changed?”



Source: Survey by YouGov commissioned by Energy UK (2017)

2.26. Empirical evidence from a study of eight markets, including electricity, showed that the expected switching time has a statistically significant and negative effect on the probability of switching – longer expected times to switch discourages both searching around for other deals and switching.²⁶ The probability that consumers would search and switch is at its highest point when it takes no time to switch, and falls as expected switching time increases. An earlier study also found that the anticipated length of switching time has a negative, significant estimated effect on probable search, switch, and search and switch.²⁷

2.27. Once a consumer has chosen to switch, the slow speed can still put them off completing the process. Past research by Consumer Futures suggested that approximately 7% of consumers cancelled switches part of the way through the process, with a small number citing delays in the process as their reason for doing so.²⁸

2.28. Despite consumer perceptions of complexity, the vast majority of the current three-week switching period is not used for any particular activity. Condensing this process will improve consumers’ experiences and perceptions of it, which we expect to lead to greater levels of engagement.

Inefficient and outdated switching and governance arrangements

2.29. The existing switching arrangements are based on processes and systems that operate differently for the gas and electricity markets and have remained largely the

²⁶ Waddams Price and Zhu, Empirical evidence of consumer response in regulated markets, 2016

²⁷ Waddams Price, Webster and Zhu, Searching and switching: Empirical estimates of consumer behaviour in regulated markets, December 2013

²⁸ Consumer Futures, Switched on: consumer experiences of energy switching, January 2013

same since the late 1990s. Adjustments to the arrangements have tended to be made piecemeal, meaning they are not as efficient as they could be. They can also require manual intervention to ensure a switch is completed as intended, which can add costs that will ultimately be borne by consumers.

2.30. It is problematic that these outdated and fragmented arrangements are no longer compatible with how consumers view and seek to interact with the market. This can lead to negative consumer experiences, and unnecessary costs being incurred by the industry.

2.31. One element of the arrangements that is out of step with the requirements of suppliers and consumers is that switches for gas and electricity are processed separately, and have different processes.

2.32. The separate gas and electricity switching arrangements mean that a consumer who has requested a dual fuel switch will end up with two different suppliers where there is a problem with switching one of the fuels. This is because the separation of the gas and electricity switches means that one may go through successfully while the other fuel fails. This is an unacceptable outcome for consumers and will mean they are unable to benefit from the dual fuel tariff that they had signed up to. A situation of this sort will take effort on the part of the consumer to resolve.

2.33. From an industry perspective, operating separate gas and electricity switching arrangements is inefficient, and will lead to unnecessary cost. We would expect that having one single system and process for both fuels would lead to significant efficiency savings over the long term.

2.34. In addition, the existing industry code governance arrangements, which operate differently for gas and electricity, make it more difficult for the industry to facilitate innovation and adapt to change.

2.35. Different governance arrangements mean that the process of making changes to switching in the future would continue to be fragmented between gas and electricity, with duplication of the costs of change and the continuing difficulty of ensuring that two governance processes move quickly and in step.²⁹

Rationale for intervention

2.36. The evidence presented above suggests that the current switching arrangements result in negative outcomes for some consumers and can deter some from engaging in the retail energy market and switching.

²⁹ As documented by the CMA in its investigation, changes to industry codes that were in consumers' interest, such as P272 and Project Nexus were not delivered in a timely and efficient way. This suggests that implementing changes to gas and electricity switching arrangements through the modification of several industry codes might encounter the same problems. See CMA (2016). Energy Market Investigation Final report, para 12.50.

2.37. Linking gas and electricity meters to the same single address, and improving the quality of industry data would significantly reduce the number of switch attempts that result in an erroneous, delayed or unsuccessful failed switch. This will mean that consumers' experience of switching is more positive overall and would give consumers greater confidence that they can switch both fuels reliably at the same time. Coupled with a much faster switching process, this would generate a direct benefit to those consumers that are already engaged in the market, allowing them to benefit more quickly from cheaper prices, while reducing the risk that something would go wrong.

2.38. A more positive switching experience, in both speed and reliability for those who do currently switch, should also prompt more engagement from those who have decided not to switch because of the perceived risks and barriers. For example, once a greater volume of positive experiences are shared with friends and family. Evidence from our 2017 Consumer Engagement survey showed that 41% of those who switched tariff/supplier in the past 12 months received a recommendation from someone other than a salesperson.³⁰ Higher levels of switching than we would otherwise have seen would generate savings for consumers on their energy bills.

2.39. In turn, increased switching will exert additional competitive pressure on suppliers and provide them with greater incentives to attract new consumers and retain existing ones. They may seek to differentiate themselves by lowering their prices, improving their consumer service, and offering innovative new products and services. The stepping up of consumer retention efforts would result in more consumers switching tariffs with their existing supplier, generating further savings. These indirect, dynamic competition benefits might be significantly greater than the – still important – direct consumer benefits from more reliable and faster switching.

2.40. In addition, the current systems, largely designed in the last century, potentially act as a brake on innovation. As noted above, the energy market is facing rapid technological change, including the rollout of smart meters, the move to half-hourly settlement, increased micro-generation and the growth of peer-to-peer networks, where consumers are connected directly to local renewable producers. We are also looking at whether the existing 'supplier hub' arrangements in the market ought to be reformed to boost innovation and competition.³¹

2.41. We do not know how the supply market may change, but there are a number of models that could emerge. For example, we can envisage a situation in the future where consumers may seek to contract with suppliers for relatively short periods of time, enabling them to be served by different parties for different aspects of their energy supply or on different days of the week. Consumers might want to power their houses from one supplier and their cars from another. It is possible that we might see the development of demand management services that source the most efficient energy for a consumer in real time. Any of these, or other changes, may

³⁰ [Ofgem Consumer Engagement Survey \(2017\)](#).

³¹ [Ofgem seeks views on reforms to 'supplier hub' market arrangements](#), November 2017.

happen over coming years, and could require changes in the way that registration data, and/or the switching process, is managed.

2.42. Through the Switching Programme we want to make sure that the switching arrangements keep in step with this dynamic energy market landscape and with rapid technological change. Our new switching systems and processes should be designed to support these and other programmes of work, and also leverage the benefits of other changes where possible. In doing so we aim to create an efficient and effective set of switching arrangements that are flexible enough to support both current and future market requirements.

2.43. By introducing a single central system that is designed with future change in mind, we will be ensuring that both the central switching systems and supporting governance arrangements can quickly and efficiently be adapted to enable transformative industry innovation that were not anticipated when the existing platforms were developed. While the existing systems may be capable of adapting to the sorts of change we can currently foresee, it would be more difficult, more expensive, and slower to do this with two registration systems with separate governance arrangements than it would with just one.

Why Ofgem is stepping in

2.44. Ofgem initiated the Switching Programme as we consider that the problems identified above cannot be effectively corrected by market forces alone or an industry led programme.

2.45. A series of changes to industry codes would be required to speed up and enhance the switching journey. Each of these changes requires a combination of coordination and regulation, which we believe cannot be delivered by market participants alone.

2.46. Experience of the market to date suggests, for example in relation to the introduction of the new UK Link, that industry parties are unlikely to be able to coordinate and manage that process without significant oversight and assistance from a central body.

2.47. Further, as identified by the CMA in the Energy Market Investigation,³² we think that current industry governance arrangements do not work well in achieving timely change when there are substantial financial costs, which are unequally distributed between players.

2.48. With regards to the reliability of switching in particular, the existing industry code governance arrangements³³ do not provide the appropriate clarity or incentives for individuals or groups of industry participants to improve the quality of industry

³² See pages 471-472 of the CMA Provisional Findings report.

³³ Industry code arrangements are currently being modified by Ofgem as a result of the findings from the Energy Market Investigation. See [Update on the implementation of the CMA Code Governance Remedies](#) published by Ofgem on 26 July 2017.

address data. Though there have been several efforts over the years to cleanse it, the quality of relevant industry data sets remains poor, and we expect that these problems will continue to arise without intervention and coordination by a central party.

2.49. Switching speed is largely determined by a series of accepted industry processes and practices; for example, the length of time that is allowed for a losing supplier to object to a switch, or the pan-industry accepted practice that switches are not completed until after the cooling-off period has elapsed. Amending these arrangements through changes to industry systems and codes will in practice require a central authority to coordinate.

2.50. Making the switching process faster and more reliable would require significant changes to energy suppliers' IT systems as well as changes to existing central systems such as UK Link and MPRS. The costs of these changes are high and unevenly distributed between suppliers. Some parties would incur larger direct costs than others, for example if their IT systems are older and require more significant upgrades. Therefore, current market incumbents might not have the appropriate commercial incentives to deliver these pro-competitive reforms given that the changes will incur costs for them.

2.51. All these factors taken together mean that we cannot expect faster and more reliable switching to be introduced through existing industry mechanisms. As signalled by our launch of a SCR,^{34,35} we consider that Ofgem is best placed to identify the best outcomes for consumers and to take a leading role in making the changes needed to industry codes to ensure that these outcomes are achieved.

Programme objectives

2.52. Our overarching programme objective is to improve consumers' experience of switching, leading to greater engagement in the retail energy market, by designing and implementing a new switching process that is reliable, fast and cost-effective. This will build consumer confidence and facilitate competition, delivering better outcomes for consumers.

2.53. During the Blueprint phase of the programme, we have also developed a set of subsidiary objectives summarising what we aim to achieve through the Switching Programme. These are used both to communicate our aims to stakeholders and as a

³⁴ Following consultation in June 2014 and the broad support of stakeholders, we launched a Significant Code review in November 2015 <https://www.ofgem.gov.uk/publications-and-updates/switching-significant-code-review-launch-statement-and-request-expressions-interest-participate-programme-workgroups>

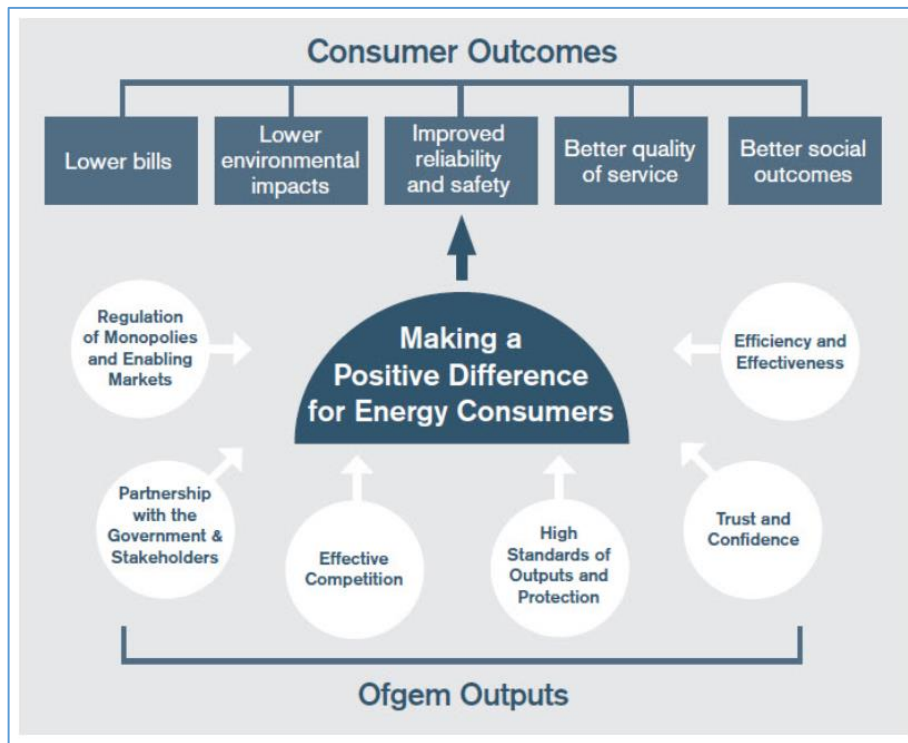
³⁵ The Competition and Markets Authority also recommended that Ofgem be given greater powers to influence the process of amending industry codes. In November 2016, we launched an initial consultation on the implementation of their recommendations. The full package of reforms is not expected to be implemented within the timelines necessary for the Switching Programme, and so is unlikely to affect our work directly. We are, therefore, continuing to plan on the basis that we will use our existing SCR and licence modification powers to deliver changes to the switching arrangements.

means of assessing the relative strength of the different reforms we have considered during our Blueprint phase work. The subsidiary objectives are:

1. To improve consumer experiences and perceptions of changing supplier, leading to increased engagement in the market, by delivering a switching service that:
 - a. Is more reliable, thereby reducing the instances of consumers being let down by delayed, unsuccessful or unwanted switches.
 - b. Offers consumers control over when they switch, including providing the capability of doing so as fast as possible, and by no later than the end of the following day after a consumer has entered into a contract.
 - c. Minimises any differences in consumer experiences of the switching process, to the extent that is possible, taking into account any physical constraints imposed by metering and issues relating to consumers' indebtedness.
2. To deliver a simple and robust system architecture design that harmonises business processes across the gas and electricity markets where possible, and is capable of efficiently adapting to future requirements.
3. To encourage more effective competition by minimising barriers to entry for new entrants to the market, including the extent to which a successful switch may rely on the actions of an incumbent, and by having appropriate safeguards in place where this is not possible.

2.54. These objectives link directly to our organisational strategic objectives³⁶ and the outcomes we aim to deliver for consumers, in particular to deliver lower bills than would otherwise have been the case and a better quality of service that is appropriate for an essential service. These are summarised in Figure 4 below.

³⁶ See [Ofgem Forward Work Programme 2017-18](#)

Figure 4: Ofgem's strategy for consumers

Strategic context

2.55. In this section we describe the wider context in which our changes to the switching arrangements will take place. In particular we focus on retail energy markets and explain how our measures to improve switching arrangements fit with other policies led by Ofgem or industry.

Domestic retail energy markets

2.56. We believe that effective competition – combined with price protection for those who need it most – is central to ensuring that energy markets work in the interest of consumers. Competition benefits consumers by incentivising firms to be more efficient and find better ways of providing the services consumers want at lower prices. In a competitive market, we would expect that the threat of losing customers means suppliers offer all their customers – including those on standard variable tariffs – a good deal.

2.57. Concerns on the effectiveness of competition led Ofgem to refer the energy market to the CMA in 2014.³⁷ The CMA concluded its investigation into the energy

³⁷ Ofgem (2014). [Decision to make a market investigation reference in respect of the supply and](#)

market in June 2016. Its main finding was that a lack of consumer engagement gave suppliers a position of unilateral market power over their inactive customer base.³⁸

2.58. The CMA estimated that consumers were overcharged by suppliers around £1.4 billion a year on average for the period 2012 to 2015.³⁹ It also revealed that two thirds of households were on more expensive Standard Variable Tariffs (SVTs)⁴⁰ despite average potential savings of £219 for both fuels over the same period.⁴¹

2.59. It also found that around 70% of the consumers of the largest six suppliers were on the SVT and up to 55% (10 million consumers) had been on the SVT with the same supplier for more than three years.⁴²

2.60. The CMA considered that this weak engagement from consumers was the result of the following factors that in combinations discourage consumers from considering and/ selecting a new supplier that offers a lower price for effectively the same product:⁴³

(a) Customers have limited awareness of, and interest in, their ability to switch energy supplier.

(b) Customers face actual and perceived barriers to accessing and assessing information.

(c) Customers face actual and perceived barriers to switching, such as where they experience erroneous switches which have the potential to cause material detriment to those who suffer from them.

2.61. To address the problems identified, the CMA proposed a set of broad-ranging remedies. Some of these remedies have now been implemented or about to be implemented. We discuss those related to the retail market in more detail in Appendix 7.

2.62. Since the CMA concluded its investigation, there have been some positive developments in the domestic retail market.

[acquisition of energy in Great Britain.](#)

³⁸ CMA (2016). [Energy Market Investigation- final report; para 9.562.](#)

³⁹ CMA (2016). Energy Market Investigation- final report; para 205.

⁴⁰ CMA, [Energy market Investigation: summary of final report](#), June 2016.

⁴¹ CMA (2016). Energy Market Investigation- final report; para 8.253.

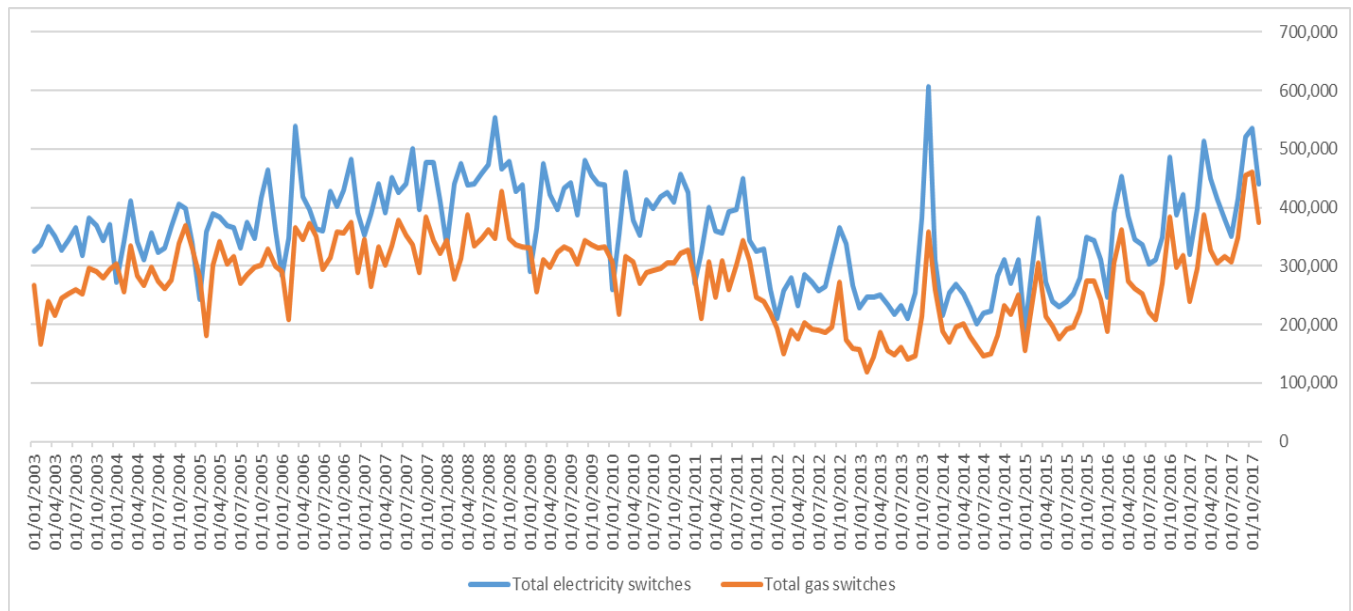
⁴² CMA (2016). Energy Market Investigation- final report; para 232.

⁴³ CMA (2016). Energy Market Investigation- final report; para 9.563

2.63. The number of suppliers serving the domestic market has continued to increase. In Q3 2017 there were 66 suppliers, with the majority operating in both gas and electricity markets.⁴⁴

2.64. The number of domestic gas and electricity customers⁴⁵ switching supplier has risen since 2014, after a significant dip in the first half of the decade. In the year up to the end of November 2017 it was 20% higher than in the 12 preceding months for electricity and 26% higher for gas.⁴⁶ It is close to historic highs for electricity and set a new high for gas (460,559 in October 2017). See Figure 5 below.

Figure 5: Switching trends between 1 January 2003 and 1 November 2017



Source: Ofgem analysis of data from electricity distribution network operators, Xoserve and the six largest suppliers before 2014.

2.65. The number of domestic customers switching to small and medium suppliers has continued to increase. Net switching gains for small and medium suppliers were around 175,000 and 165,000 for electricity and gas respectively in October 2017, a rise of around 92% and 140% from December 2016.

2.66. This increase in switching has been facilitated by price comparison websites (PCWs), who have an important role in facilitating consumer switching. Our 2017 domestic consumer survey shows that 49% of consumers who had engaged with the

⁴⁴ See Ofgem, [Retail Market Indicators \(31 January 2018\)](#)

⁴⁵ In March 2016, there were approximately 28 million domestic electricity and 21 million domestic gas consumers in GB. Of these, there were approximately 20 million dual fuel consumers, who get both electricity and gas from the same supplier. Ofgem, [Retail Energy Markets in 2016](#), August 2016

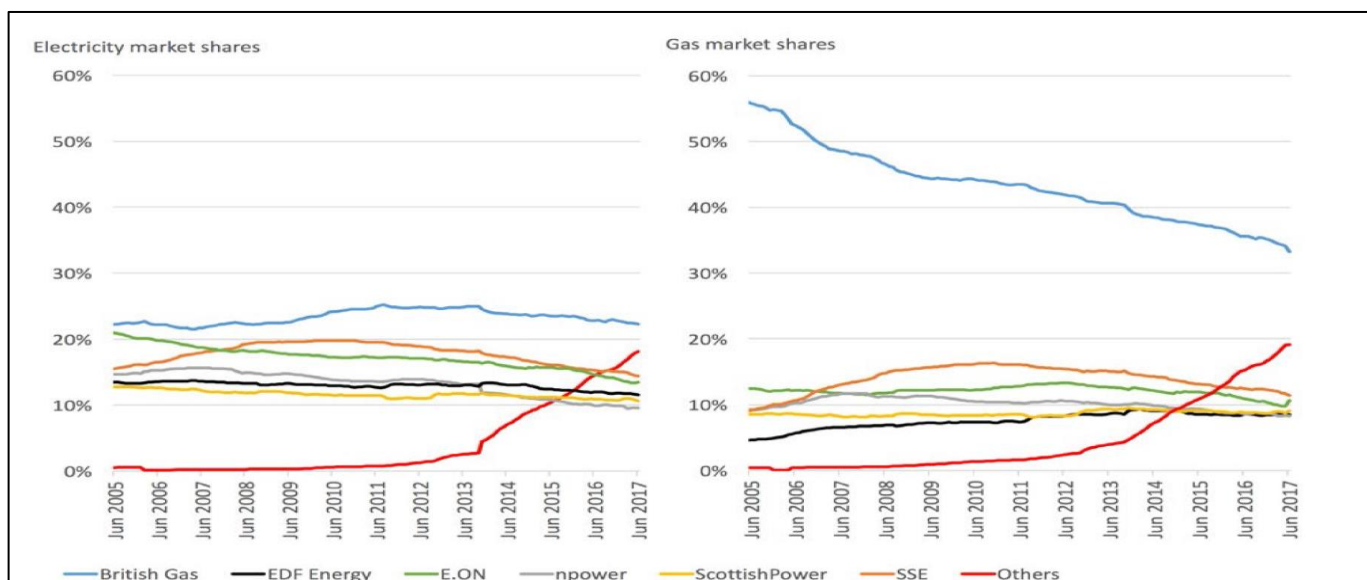
⁴⁶ See Ofgem-[Retail Market Indicators- Switching and consumer experience](#) (31 January 2018).

energy market in the last 12 months found out about deals using a PCW, compared with 15% who rang a supplier.⁴⁷ Two-fifths of those who switched supplier said that they did so using a third party service, mainly PCWs.

2.67. The CMA also estimated, based on its Customer Survey that 62% of respondents who had switched suppliers in the last three years used a PCW to find out information, and of those respondents, 53% made the switch via a PCW.⁴⁸

2.68. Despite these developments, the retail energy market remains concentrated with the six largest suppliers still accounting for around 80% of domestic retail supply.⁴⁹ This has fallen from 99% market share in 2011.⁵⁰

Figure 6: Electricity and gas market share evolution



Source: Ofgem (2017). State of Market report. Ofgem analysis of Distribution Network Operators and Xoserve data.

2.69. Further, a large proportion of consumers still remain on more expensive tariffs, such as the SVT. Data from Ofgem shows that as of April 2017, approximately 60%⁵¹ of customers were on SVTs.

2.70. Ofgem’s analysis suggest that on average, consumers on SVTs could have saved between £92 and £233 by switching tariff without switching suppliers between

⁴⁷ See Ofgem (2017) Survey, page 61.

⁴⁸ See CMA, Energy Market Investigation, Appendix 9.3: Price comparison websites and collective switching, page A9.3-11.

⁴⁹ See Ofgem (2017) State of the market report, page 20.

⁵⁰ Ofgem, The Retail Market Review: findings and initial proposals, March 2011.

⁵¹ See Ofgem (2017). State of the market report, page 26.

September and December 2017.⁵² Savings from switching supplier were greater and could have been between £283 and £352 over the same period.⁵³ The high proportion of customers on SVTs and the substantial savings that can be achieved from switching suggest that many customers are still not engaged in the market and are more likely to be in vulnerable situations.

2.71. These findings are consistent with those from the CMA.⁵⁴ They suggest a two-tier market for domestic customers exists where those who are able to shop around can achieve a good deal but those who are less active, and/or face barriers to engage, pay more.

2.72. To address this two-tier market problem, Ofgem is progressing the remedies recommended by the CMA, working with industry on some specific initiatives and introducing new measures to safeguard those groups of customers that require additional protection. We have grouped all these initiatives into three categories. Further detail on each of these policy initiatives can be found in Appendix 7.

- a) *Removing perceived and actual barriers to switching.* This category includes initiatives led by Ofgem and industry, including our work on switching, and the CMA's order on industry parties to give PCWs access to industry data held on Electricity Central Online Enquiry Service (ECOES) and Data Enquiry Service (DES);
- b) *Helping customers to engage - removing barriers to accessing and assessing information.* This category comprises some of the CMA remedies, including the database and prompts to engage, and the rollout of smart meters which Ofgem is overseeing.
- c) *Temporary measures to protect some groups of customers.* This includes the Prepayment Meter (PPM) cap recommended by the CMA and introduced by Ofgem in April 2017, other caps implemented by Ofgem for vulnerable customers and default tariffs cap proposed by Government.

2.73. We consider that fast and reliable switching is a necessary condition for effective competition in the retail market and that our reform of the switching arrangements is complementary to these other measures. We also believe that the impact of such measures could be inhibited if the existing switching arrangements were retained.

2.74. We also expect that the new CSS will be able to efficiently adapt to meet future market requirements.

⁵² See Ofgem, [Retail Market Indicators](#), 31 January 2018.

⁵³ See Ofgem, [Retail Market Indicators](#), 31 January 2018. Also see Ofgem (2017). State of the market report, page 27.

⁵⁴ Ofgem. [Standard variable tariffs: Latest trends at September 2017](#)

Non-domestic retail energy markets

2.75. The unreliable outcomes, delayed, erroneous and unsuccessful switches, we described in the previous sections occur in both the domestic and non-domestic retail markets.

2.76. The non-domestic market sector is made up of a diverse range of customers with different energy needs and engagement. In general, large industrial and commercial consumers may tender for a supply contract and will often have fixed term contracts, which are negotiated some time in advance of the proposed switch date.

2.77. At the other end of the market, small and microbusiness consumers tend to display engagement features that are similar to those of domestic customers. For example, in its investigation the CMA found that for some of the six largest suppliers, around half their Small and Medium Enterprises customers have not switched supplier in at least the past five years. Some customers have even remained with the same supplier since privatisation.⁵⁵

2.78. Our recent research on micro and small business customer engagement in the energy market showed that approximately 19% of businesses had not switched supplier in 2016.⁵⁶

2.79. Although most of the reasons cited by businesses for not switching were not related to the switching process, some, as shown in Figure 7 below, said that the process would take too long.⁵⁷

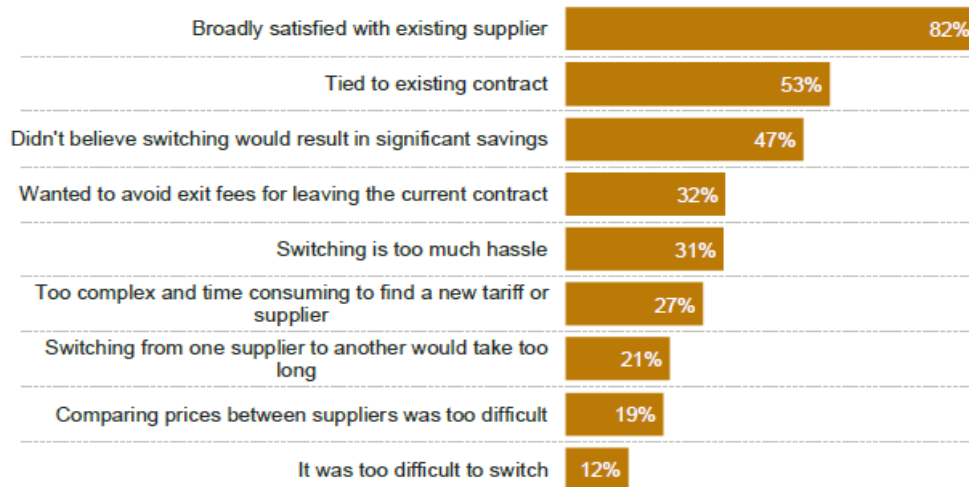
2.80. Further, as shown in Figure 8 below, around a fifth of those who attempted to switch were not able to do so as they did not start looking to switch early enough. We think that one of the factors that would have inhibited these consumers switching is the length on the switching process.

⁵⁵ See [CMA \(2016\) Energy Market Investigation final report](#), paragraphs 16.32-16.34.

⁵⁶ See page 19. Quadrangle (2017). [Micro and small business customer engagement in the energy market, 2016](#). Report prepared for Ofgem

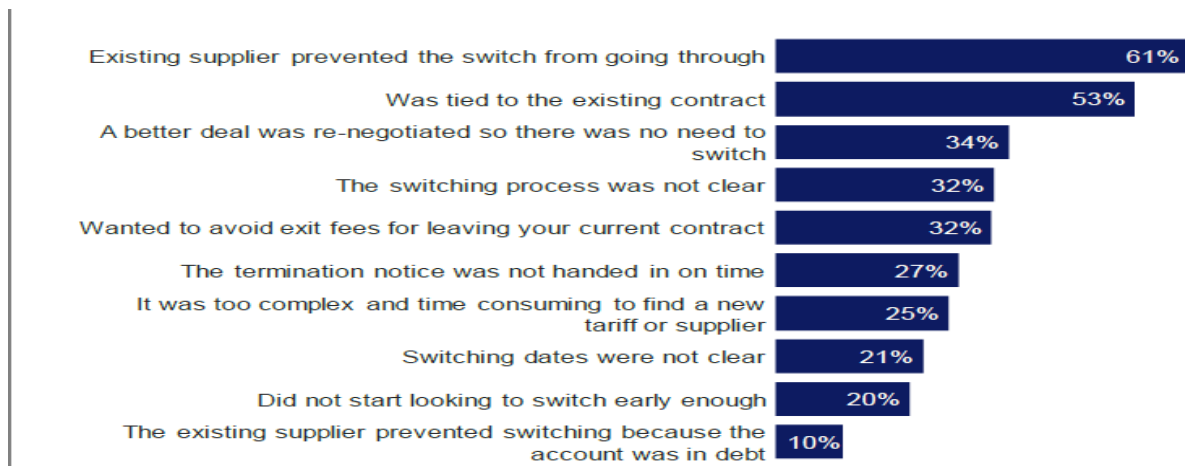
⁵⁷ See page 17. Quadrangle (2017). [Micro and small business customer engagement in the energy market, 2016](#). Report prepared for Ofgem.

Figure 7: Reasons why businesses have not switched suppliers, 2016. Responses to the question “Which of the following reasons, if any, contributed to why you have not switched in the last 12 months?”



Source: Quadrangle (2017). *Micro and small business customer engagement in the energy market, 2016.* Report prepared for Ofgem


Figure 8: Reasons why a switch attempt was not successful, 2016. Responses to the question “And which, if any, of the following prevented the switch from going through?”



Source: Quadrangle (2017). *Micro and small business customer engagement in the energy market, 2016.* Report prepared for Ofgem

2.81. In addition to improvements to the reliability of switching, our changes to the speed of switching are also likely to improve non-domestic consumers’ experience in the market.

- For non-domestic consumers who are on non-fixed term contracts (eg deemed or evergreen contracts, including evergreen roll-over contracts) a faster process means that they will be able to switch to their new supplier in two working days.



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- A faster switching process will also help non-domestic consumers, on fixed and non-fixed contracts, to resolve issues that would otherwise prevent them from starting their new contract on their chosen date. For example, a faster switching process will reduce the impact of problems arising while a switch is being processed (whereby a switch request needs to be resent) or where there is a delay in agreeing contract terms with a new supplier.

3. Economic Case – the shortlist

Chapter summary

This chapter summarises our process for shortlisting reform options to select a preferred package. The process is described in detail in the Strategic Outline Case⁵⁸ and the September consultation and is covered here for completeness, but only at a very high level. Readers who are familiar with the programme may want to move straight to Chapter 4.

Assessing reform options (the longlist)

3.1 In our Strategic Outline Case, we started our options analysis by assessing the complete long list of reform options, assessing each of them against our programme objectives. We used these assessments to determine which options to rule out, and which ones to carry forward to be used in formulating our shortlist of reform packages. This included an assessment of options for the following issues:

- A) *Solution architecture*
- B) *Objections*
- C) *Cooling off*
- D) *Dual fuel – one fail/all fail*
- E) *Standstill*
- F) *Repository of agent information in the registration service*
- G) *Agent appointments*
- H) *Differentiation by customer-type on the CSS*
- I) *Advance registration*
- J) *Consumer facing M-number helpdesk*
- K) *Transition strategy*
- L) *Data improvement strategy*

3.2 These detailed assessments, and the conclusions we reached, can be found in Chapter 3 of our Strategic Outline Case, published in January 2017.

Forming the initial shortlist

3.3 We constructed our initial shortlist of three reform packages by drawing together three unique combinations of the reform options carried forward from the longlist. As complete packages, they differed primarily by the scale of intervention required to implement them and the benefits they would deliver for consumers. We assigned each of the individual reform options carried forward from the longlist to reform packages, while considering how practical each one would be to implement

⁵⁸ [Strategic Outline Case](#)

within the constraints of the IT and other arrangements that provide the foundations of that package. Each of the packages was designed to provide a coherent and workable set of switching arrangements for the industry and consumers.

3.4 When designing our reform packages, we applied the following principles:

- Each reform package should require a distinctly different level or type of intervention to implement them.
- Each reform package should have the capacity to deliver sufficiently against our objectives so that it could be considered a credible outcome for the programme.
- Each reform package must comprise an internally consistent set of policy options so that the package would deliver a coherent set of switching arrangements.
- Each reform package must be deliverable using the regulatory levers available to the programme.

3.5 This approach led to the creation of three distinct packages, referred to as RP1, RP2, and RP3.⁵⁹ These packages differed primarily in the extent to which they relied on existing industry systems or replaced them, and the proposed requirements for how quickly a losing supplier would have to object to a switch. As a result, they differed in the extent to which they delivered on the objectives of the programme in respect of speed of switching, reliability, harmonisation and ability to support innovation and drive competition.

Reform package optimisation

3.6 In January 2017, we requested information from a wide range of industry parties on how each of the three original reform packages would affect them. This information was primarily focused on what the net cost of each package would be for each party. Through this request for information, we also gathered cost data on variants to a number of the reform components (eg objections) that made up the packages.

3.7 Based on the information we gathered, we were able to make a more informed decision on which variants to adopt in order to optimise each of these packages. We also used this information to design a further reform package, referred to as RP2a, which we identified could deliver almost all of the benefits to consumers of RP2, at a greatly reduced cost to the industry.

⁵⁹ Full details of the initial shortlisted reform packages can be found in Appendix 1 in our [Strategic Outline Case](#), published in January 2017.

3.8 In September 2017, having updated the original three reform packages, as well as creating a new one, based on information gathered from the RFI, we consulted on four reform packages,⁶⁰ which are summarised below:

- **Reform Package 1 - “Enhanced existing systems” (RP1)** - The existing switching services (UK Link for gas and the MPRS for electricity) and enquiry services (DES for gas and the ECOES for electricity) would be retained. The quality of industry address data would be improved through a one-off data cleansing and matching process, and two-working-day switching for domestic consumers (three working days for non-domestic consumers), would be achieved through a series of changes to industry processes.
- **Reform Package 2a – “Reliable Next-Day Switching” (RP2a)** - The switching functions of UK Link and MPRS would be replaced by a single new CSS. In addition to a one-off cleansing and matching process, industry data quality would be improved with a new a single premises address database, and then quality sustained through improved ongoing maintenance arrangements. Changes to industry switching processes would enable switching at the end of the next working day for domestic consumers and two working days for non-domestic consumers. The existing enquiry services, ECOES and DES, would not be replaced as part of the Switching Programme. Transitional regulatory requirements will protect reliability for consumers during the immediate period after go-live.
- **Reform Package 2 - “Same-Day Switching” (RP2)** - As for RP2a, but instant messaging and calendar-day operation would be introduced for objections, enabling switching to take place at the end of the same calendar day (at minimum, one day faster than RP2a).
- **Reform Package 3 - “Same-Day Switching with enhanced information provision” (RP3)** - As for RP2, but ECOES and DES would be replaced by a new central Market Intelligence Service (MIS) as part of the Switching Programme reforms.

3.9 The full details of each of these reform packages, reflecting all of the latest design decisions, are set out in Appendix 5.

3.10 We proposed in the consultation to change the current regulatory requirement for switches to be completed within 21 days of the relevant date to a backstop requirement on suppliers to switch a customer within five working days of entering into a contract with them.

3.11 While the Switching Programme includes proposals to radically improve the quality of the industry held address data, thus reducing the risk of the wrong meter being switched, we are unable to understand with full certainty at this stage how

⁶⁰ Full details of the four reform packages can be found in Appendix 2 of our [September 2017 consultation document](#).

effective they will be when in the context of faster switching. We therefore proposed a brief transitional period (which we said we thought might be as short as three months) during which suppliers would be encouraged to default to a five-working-day switch. We proposed that this transitional period would apply to all four reform packages. Suppliers would not be prevented from switching customers faster during this period, but if they were to do so then they might be subject to additional obligations to ensure the right meter point was switched, or to penalties in the event of an erroneous switch. We explained in the consultation document that we will establish objective criteria to demonstrate that moving from a five-working-day default switch to a next-day default switch would not have an unanticipated impact on the rate of erroneous switches. The transitional period would then end once those criteria were met.

3.12 At the end of the transitional period any additional obligations relating to switching faster than five working days would be removed and the expectation would be that all suppliers would move to next-day switching as a default. We do not currently expect to change the regulatory backstop requirements to next-day, but will consider doing so if suppliers fail to move to next-day switching once the transitional period has ended.

3.13 We stated in our consultation document and supporting IA that our preferred option was RP2a. This was based on our assessment that this package of reforms would deliver significant net benefits for consumers while also offering the best fit against our programme objectives.

Assessing the options

3.14 Alongside our September 2017 consultation document, we also published an initial IA covering all four packages.⁶¹ We used this assessment to identify RP2a as our preferred option, and sought feedback from stakeholders on the analysis we presented and the conclusions we had drawn. In particular, we tested with stakeholders whether each element of our analysis provided a sound basis for selecting the right reform package.

3.15 A summary of the feedback we received on the IA, and our response to the issues that were raised, is set out in Appendix 1 of this document. Based on this feedback, as well as our own internal review of the methodology and assumptions adopted, we have updated the analysis in a number of areas. A summary of the updated analysis and findings is presented in the next Chapter. The full updated IA for decision, which explains how the analysis has changed since the consultation, can be found in Appendix 2.

⁶¹ Switching Programme [consultation stage impact assessment](#), September 2017.

4. Economic Case – impact assessment summary

Chapter summary

This chapter summarises the findings of our updated IA that informed our decision to proceed with RP2a. It sets out how we structured the analysis, our findings, and the conclusions we have drawn. It concludes by explaining the rationale for our decision.

The analysis summarised in this chapter is similar to that presented in our September 2017 consultation, with minimal changes to our approach or methodology. Based on feedback we gathered through the consultation, we have been able to refine a number of our assumptions, and make some elements of the analysis more evidence-based and robust. As a result, there have been some relatively small changes to the estimated quantified impacts.

In this chapter we only present the updated findings of our analysis. For full details of the changes we have made to the analysis since the consultation, and the rationale for these changes, see our full IA for decision in Appendix 2.

Approach

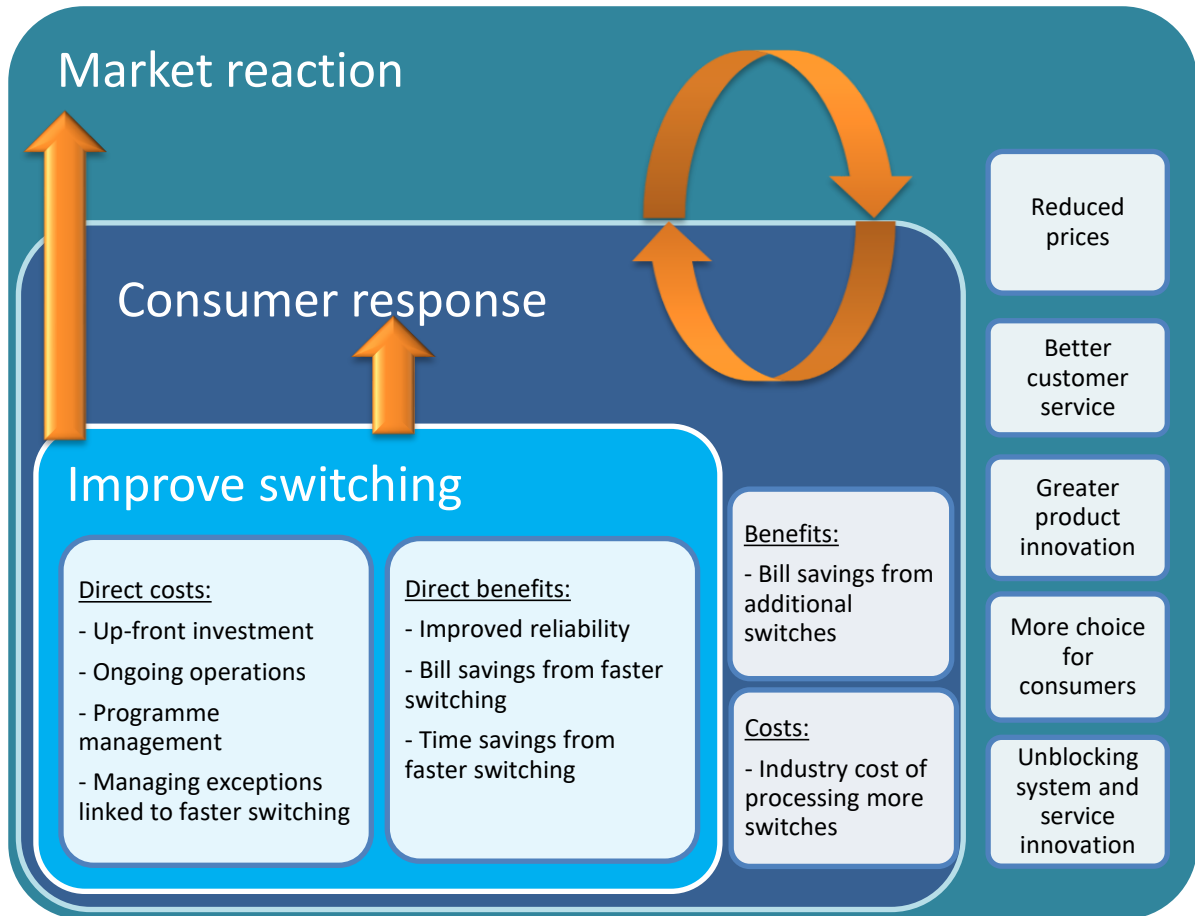
4.1. The IA contains three distinct pieces of analysis.

- First, we have quantified and monetised the majority of the direct impacts of improving the switching arrangements, to create a NPV to consumers for each package. We have assessed costs and benefits over an 18-year period from 2018 to 2035.⁶²
- Second, we have developed an illustrative scenario analysis to demonstrate the potential scale of the indirect benefits to consumers over the same period, for example, savings from increased engagement in the market (the consumer response).
- Third, we have qualitatively assessed the market-wide strategic benefits that are expected to be derived from the market's reaction to these developments.

4.2. The diagram below illustrates the causal relationship between these three categories of impacts.

⁶² Our IA is based on a 15-year operational period that follows the implementation period for each reform package (for RP2a this is assumed to be three years). We have chosen this assessment period based on the expected minimum life of the CSS, taking into account the observed life span of existing industry systems.

Figure 9: Summary impacts of our proposals to improve switching



Benefits

Direct monetised benefits

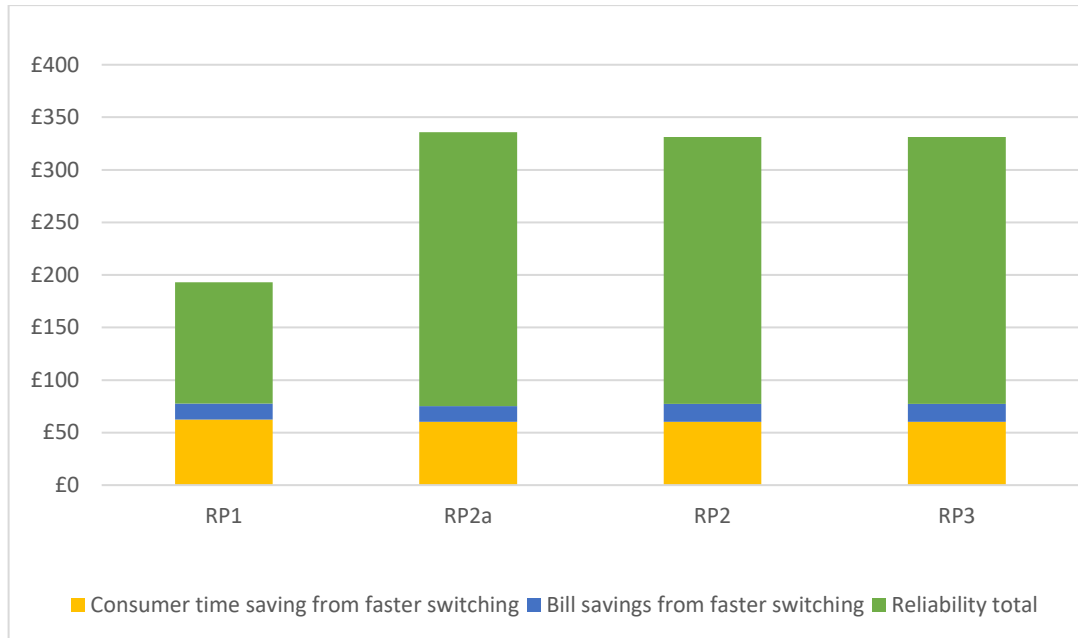
4.3. We have examined the direct benefits that we expect to be accrued by industry parties, as well as consumers, that would have engaged in the market in the absence of the reforms. The direct benefits we have identified and monetised within our IA are:

- Improved reliability: Improvements to industry address data quality would reduce the instances of something going wrong for consumers who have chosen to switch. In particular, we would expect a reduction in the volume of erroneous, delayed, and unsuccessful switches. This will save consumers time and inconvenience, and help avoid unnecessary stress and worry. Improved reliability would also reduce costs for suppliers.

- **Faster switching:** Our reforms would improve switching speed, and we have monetised two impacts:
 - time saving to those consumers already switching between suppliers
 - bill saving to certain consumers from faster access to improved terms.

4.4. These monetised assessments are summarised in the chart below.

Figure 10: NPV of monetised direct benefits, by reform package (2018-2035, £m)



4.5. RP1 is expected to offer significantly lower improvements to reliability than the other reform packages.⁶³ In particular, the less comprehensive measures to improve and maintain data quality under RP1, coupled with faster switching, would lead to an increase in erroneous switches, as well as the associated costs and negative impacts on consumers. For the other reform packages, we expect our data improvement measures to increase the number of switches that go through smoothly, successfully and on time.

4.6. RP2a delivers next-working-day switching; to protect reliability as we transition to the new arrangements, we are including a short transitional period while we confirm that the improvements to address data quality have had the expected

⁶³ A small number of consultation responses challenged whether a newly proposed variant of RP1, with additional elements to improve data quality, might be able to offer the same direct benefits as the other packages. While it appears that this new option (termed RP1a) might be capable of achieving most of the direct reliability benefits as RP2a, we have not explored it further on the grounds that, as with RP1, it does not adequately meet our objectives in relation to harmonisation and adaptability to future requirements.

impact on the volume of erroneous switches. During this period, we will impose additional temporary requirements on those suppliers who wish to switch customers in less than a week. Once the improved reliability has been established the transitional regulatory requirements will fall away.

4.7. We have not identified any additional direct benefits related to RP2 and RP3 that we are able to quantify and monetise. Both packages would deliver same-day switching on a calendar day basis. Although we believe this would mean a better experience for consumers and could open up possibilities for more innovative service offerings in the market, these are not benefits on which we can place a monetary value on for consumers. The additional costs of same-day switching sit primarily with energy suppliers. We will design and build the CSS under RP2a such that same-day switching can be introduced in due course with very little change in the central service. Same-day switching could be introduced in the future if the suppliers' right to object to customers leaving on the grounds of debt were to be removed, or if suppliers were to adapt their systems to be able to object, where relevant, on a real-time instantaneous basis. Either development would be subject to a further IA taking account of the market conditions at the time.

Increased consumer engagement: scenario analysis

4.8. Designing and implementing a new switching process that is reliable, fast and puts consumers in control will reduce barriers to switching. We expect this to lead to consumers being more willing to engage in the market and to shop around for the best deal.

4.9. Our consumer research⁶⁴ has shown that a lack of reliability is a particular barrier to consumers choosing to switch supplier. Many also consider the existing arrangements to be too slow, which reinforces the perception that switching is a hassle.

4.10. The energy sector is undergoing a radical technology-driven transformation, including with the rollout of smart meters. In the same way that new technology has changed other sectors, this will raise consumers' expectations and the existing slow and unreliable processes are likely to become increasingly anachronistic and unable to keep pace with consumer demands.

4.11. We have considered a range of scenarios to explore the financial savings that could be made if different numbers of consumers responded to the reforms by changing their behaviour, either by switching supplier, or changing tariff with their existing supplier. These indirect benefits are different to the wider impacts that

⁶⁴ https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer_research_unreliable_switching.pdf

increased consumer engagement has on the overall competitive dynamics of the retail market, which will benefit all consumers.

4.12. It is difficult to predict consumer behaviour, but we have considered a range of scenarios which illustrate the potential impact of a relatively limited change in consumer behaviour. We would expect RP1 to have the smallest impact on consumer engagement over the long term, as it offers the lowest level of control over switching speeds, and would result in less reliable outcomes than the other packages. Nonetheless, we have not sought to differentiate this analysis by reform package, as we could not reasonably predict with any confidence the likely differential in the impact each package might have. The three scenarios we have considered are:

- Scenario 1: Cautious assumptions for the potential scale of the consumer response to our reforms: Includes a one month 50% increase in switching volumes after implementation followed by a 1% increase (ie an additional 78k meter points) in overall switch volumes to the end of the assessment period. There would also be a 2% increase in internal switches throughout the assessment period. This scenario was produced to set out a reasonable lower bound for the likely savings to consumers from increased engagement.
- Scenario 2: Based on the response by consumers to market research⁶⁵ into the key barriers to switching. In this scenario, we have assumed a very small increase in switching activity by a proportion of the consumers that indicated reliability, speed, or dual fuel switching were their most important issues. This equates to 10% of households switching one more time during the 15-year assessment period.
- Scenario 3: Based on our understanding of the banking market's response to the 2013 reforms to the current account switching arrangements. These reforms initially led to an increase in competition through product innovation, causing a steep spike in switching between banks. We have assumed an increase in switching volumes of 15% in the first year, 5% for years 2 and 3 and 3% for remaining years. Since the introduction of the new current account switching arrangements, there has been a large rise in customer retention efforts, with banks incentivising their customers to sign up for new accounts with them. In this scenario we have therefore assumed that the internal switch rates increase from 1% in years 1 and 2, to 3% in year 3 and 5% thereafter.

4.13. The full details of these scenarios and all the assumptions that have been adopted are in our updated IA (see Appendix 2). The outputs of this scenario analysis are summarised in the table below. These benefits are NPV estimates, with benefits being calculated over a 15-year operational period.

⁶⁵ Source: GfK Energy360, a syndicated energy market tracker

Table 1: Summary of scenario analysis modelling for the potential savings to domestic consumers from increased engagement (all reform packages)

Scenario	NPV consumer saving
1 – cautious assumptions, incorporating additional internal and external switching.	£339m
2 – based on consumer research on barriers to switching	£511m
3 – based on the experience in the current account market	£908m

4.14. As has been noted in the IA, this analysis has not changed following our September consultation. This includes the assumptions that we made regarding the average savings that will be achieved by consumers that switch. While we recognise that the proposed temporary price cap for default tariffs will have an impact on the savings that can be achieved by consumers that switch away from default tariffs, we are unable to update our analysis at this stage with any reasonable level of confidence. Without any information on the likely design of the proposed price cap, it would be inappropriate to make assumptions on the likely difference between the cap and the cheapest deals in the market. If the difference between default tariffs and the cheapest deals in the market is reduced in future, then the financial rewards from switching will also be reduced. The sensitivity analysis presented in our IA demonstrates that, even with greatly reduced savings per switch, the overall savings to consumers from a small increase in consumer engagement continues to demonstrate a positive case for intervention.

Non-monetised benefits

4.15. The type of increased consumer engagement illustrated above would drive more competition in the energy market. This would help deliver improved customer service, put downward pressure on prices, offer more choice for consumers, and put suppliers under greater pressure to become more efficient, thereby saving consumers money. These competition benefits are expected to increase over time, as gradually more consumers engage. They will be maximised once all suppliers believe there is a credible threat that their customers will switch to a competitor if they offer poor value for money or quality of service.

4.16. Although we are unable to quantify or monetise these impacts, we can consider what the scale of them might need to be to guarantee our reforms pay off for consumers. We have estimated that RP2a would lead to between £250m and £350m of direct costs being passed through to consumers over an 18-year period,

before any monetised benefits have been taken into account. This total investment outlay works out, on average over the appraisal period,⁶⁶ to between £0.51 to £0.72 per year for every household.⁶⁷ Therefore, for the gross costs of our reforms to be offset by the impact of increased competitive pressure, the average household energy bill would need to be reduced by less than one pound each year.

4.17. To put this into context, the CMA estimated that domestic consumers as a whole paid an average of £1.4bn a year more than they would have done under well-functioning retail markets over the period 2012 to 2015. This works out at around £50 per household per year. An average reduction in household energy bills of just one pound as a result of increased competitive pressure in the market would therefore represent just a 2% reduction in the level of consumer detriment.

4.18. As is the case with our analysis of the potential benefits of increased engagement, this additional illustrative analysis demonstrates that a very small change would be required to offset the total costs of our reforms, even in the absence of any other monetised benefits materialising. In practice, we consider that the direct impacts of the reforms, once costs and benefits have been taken into account, are broadly neutral. These wider impacts of increased engagement and competition will therefore deliver significant net benefits for consumers.

4.19. We expect RP2a, RP2 and RP3 to maximise the above competition benefits because they would lead to the greatest improvement in consumer experiences, and in turn could be expected to generate the largest increase in consumer engagement. This impact would be strongest for RP2 and RP3.

4.20. Updating the currently outdated switching arrangements and introducing new, harmonised and fast systems and processes across the gas and electricity sectors is also expected to act as a catalyst for innovation of products and services. This can be expected both from current players and from new entrants with different business models (for example third-party customer concierge services to manage people's energy needs). Our research in other sectors supports this expectation, in particular the introduction of the Current Account Switch Guarantee, which we understand played an important role in increasing product innovation and offering new services to banking customers.

4.21. In addition to faster and harmonised switching arrangements, the most important change we have identified for enabling more efficient adaptation to future innovation and change will be to introduce a single new CSS, replacing the existing fragmented arrangements. We recognise that it will be extremely difficult for the market to respond to future change in an efficient and consistent way while it

⁶⁶ As stated, these are average figures. In practice, we would expect higher costs to be incurred up front by the industry as it invests in new systems and processes, and then lower ongoing operational costs. The pass-through of costs to consumers may follow a similar pattern.

⁶⁷ Average annual cost per household = Direct cost passed through / 18 years / 27m households

operates separate switching systems for gas and electricity, which rely on different technology, and are managed through separate governance structures. Introducing the CSS will simplify these arrangements and make it easier to adapt to changes in the way consumers interact with the market, and who they have relationships with. This is particularly pertinent in the context of our recent work to consider whether the existing 'supplier hub' model should be reformed.⁶⁸

4.22. RP2a, RP2 and RP3 are designed to support potential future requirements and innovation by requiring the new central systems to be built with the capability to process transactions in near real-time and to support same-day switching. They will also facilitate harmonised switching between gas and electricity. We recognise that there are costs associated with requiring all existing and potential parties across the industry to invest in new systems and these could create barriers to entry. Therefore, we consider RP2a to have the greatest potential to support innovation because of the lower costs for suppliers.

4.23. By retaining the existing fragmented arrangements, RP1 would be at risk of holding back such important developments. We have therefore concluded that RP1, and any variant of that package that retains the existing separate switching arrangements for gas and electricity, would not adequately meet our objective of being able to efficiently adapt to future requirements.

Direct monetised costs


4.24. Each of the reform packages would impose both transitional costs (ie those linked to implementation of the reform packages) and ongoing costs on participants in the industry and Ofgem. Examples of the key costs accounted for in our analysis are below.

Transitional costs:

- Upgrades to existing industry participants' IT capabilities so that they are able to interact with the new central systems;
- Design, procurement, build and testing of the new CSS and the Customer Enquiry Service (CES);⁶⁹
- Programme design and engagement costs, including for Ofgem central delivery assurance costs;

⁶⁸ [Ofgem seeks views on reforms to 'supplier hub' market arrangements](#), November 2017.

⁶⁹ This is a single, centralised facility for consumers to find out the identity of their current supplier and the MPxN for the meter points at their premises. This information can be used by consumers to compare supplier offers and to switch reliably.



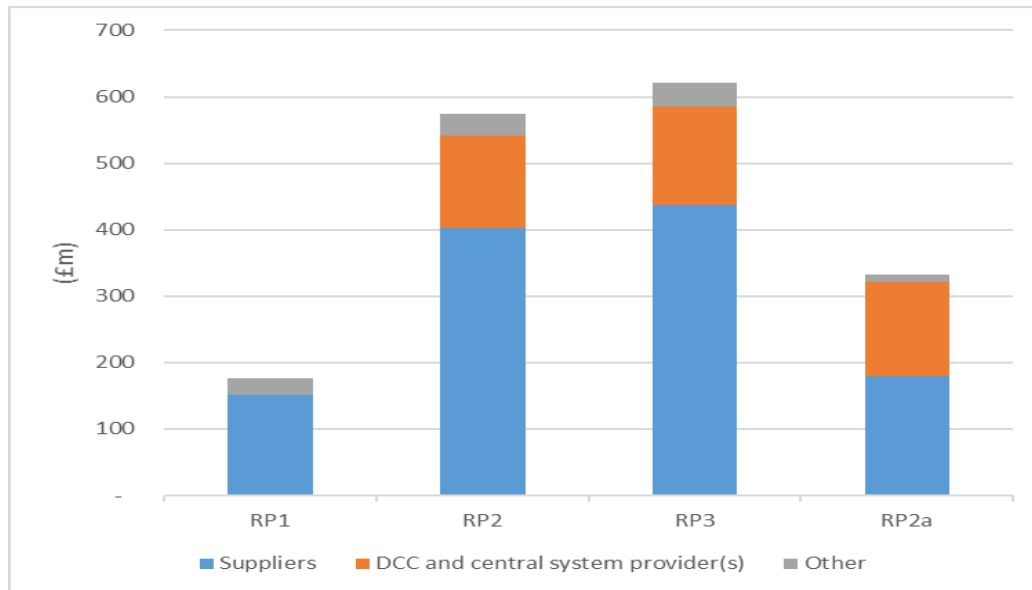
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- Training staff to manage and deliver new procedures, including developing new scripts for call centre staff;
- Exercises to migrate data from the existing separate systems for gas and electricity into the new CSS in preparation for go-live, as well as cleanse the data and match meter point numbers to a single newly-procured premises address database;
- Post-implementation costs to monitor the new arrangements in live operation and deal with unexpected problems after launch.

Ongoing costs:

- Operation of the CSS, including management of a support contact centre for CSS users and business as usual modifications to reflect user requirements;
- Operation of the CES;
- IT costs for industry participants to maintain and operate their new IT arrangements, including in maintaining an acceptable level of IT resilience;
- Changes to staffing requirements to manage the new processes and customer interactions based on different processes and within tighter timescales;
- Any reduction in costs for parties that are no longer required to perform services or for increased efficiency in the processes operated.

4.25. These costs, which we have estimated primarily using inputs from industry participants, are presented in the chart below. They are NPV estimates, calculated over an 18-year appraisal period. We have set out supplier, DCC and its central system provider costs separately. The "Other" category includes costs for Gas Transporters (GTs), Xoserve, Distribution Network Operators (DNOs), MRA Executive Committee (MEC) (in relation to ECOES), PCWs, Meter Operators (MOPs), Meter Asset Managers (MAMs) and Meter Asset Providers (MAPs) as well as programme costs and post-implementation costs.

Figure 11: NPV reform package direct costs, by affected stakeholder (2018-2035), (£millions)

4.26. The main differential between the costs in RP2a and RP1 is the cost of implementing and managing the new CSS. RP2 and RP3 are significantly more expensive than RP2a. This mainly results from the estimated increased costs to suppliers of implementing and running an instant reactive objections process on a calendar day basis. With much higher costs than RP2a, and limited additional benefits, RP2 and RP3 have been discounted following our consultation.⁷⁰

4.27. To enable our analysis of the net impact to consumers of the reform packages, we have made an assumption on the proportion of these direct costs that suppliers will pass through to consumers via increased energy bills. We have adopted a range of 75%-95%, with a central assumption of 85% cost pass-through. The rationale for this range is in the assumptions log published with our updated IA.⁷¹ With no challenge to it through our consultation, this assumption is unchanged.

Net consumer impacts

4.28. Our IA considers all of the costs and benefits described above to make an overall assessment of which reform package offers the greatest net benefits for

⁷⁰ Based on this conclusion, and the very little support for RP2 and RP3 in response to our consultation, these packages are no longer under active consideration. We have therefore focused in our main IA document on the relative merits RP1 and RP2a. The results for RP2 and RP3 are presented in this document for completeness.

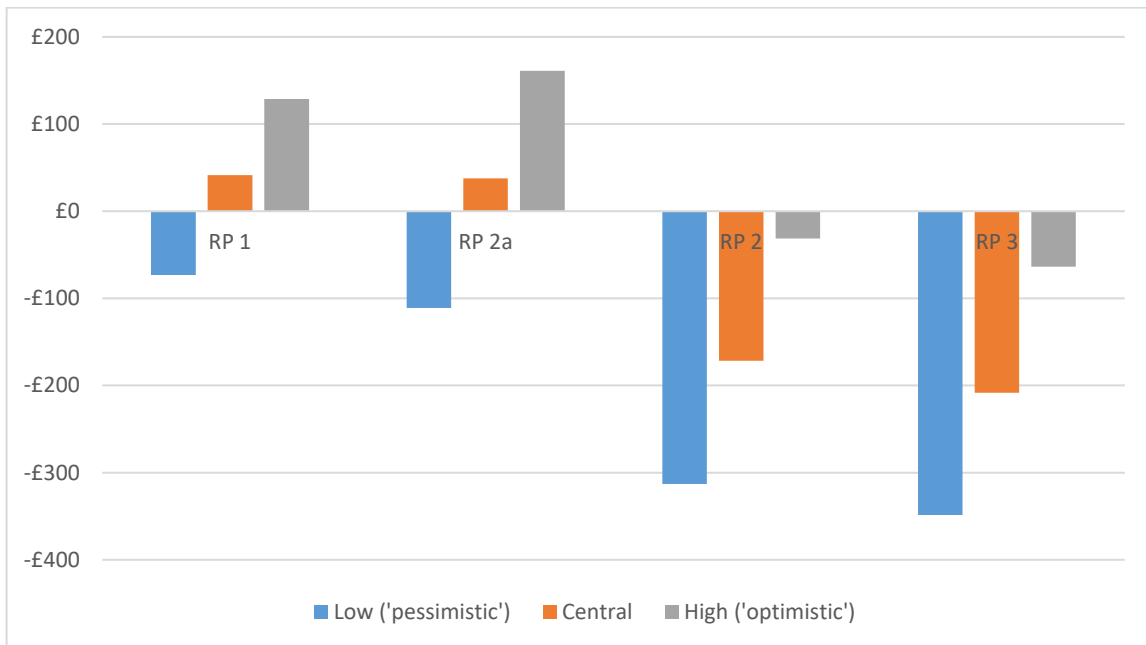
⁷¹ For our full updated assumptions log, see Appendix 2 of our updated IA.



consumers. The assessment takes account of both the benefits which can and cannot be monetised. This is necessary to form a complete picture of the impacts.

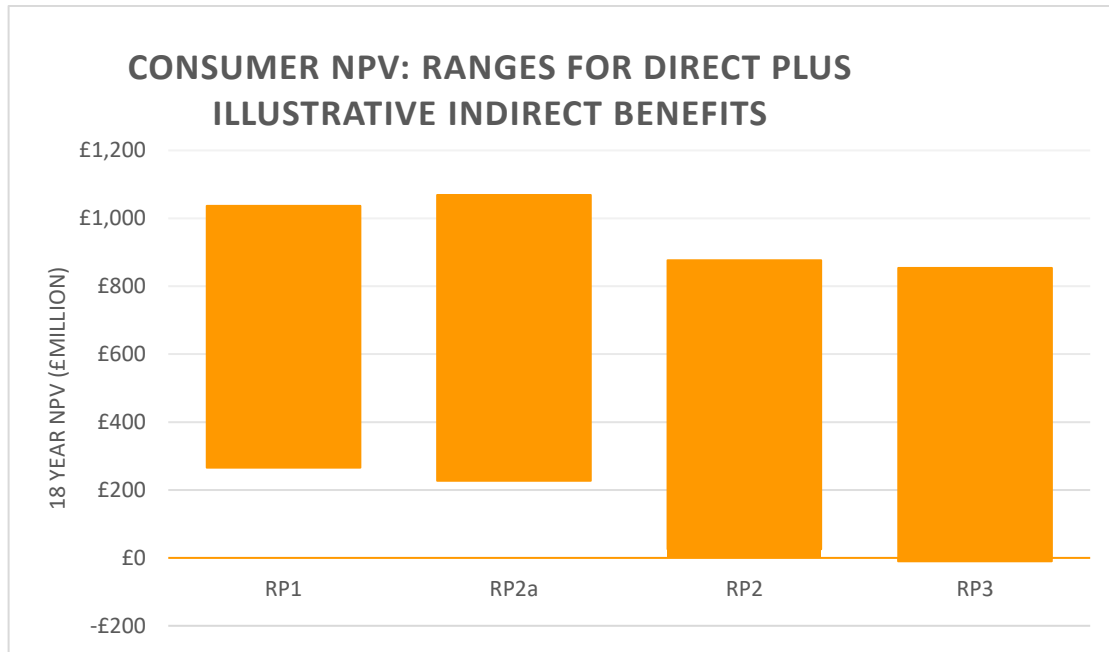
4.29. We combine the monetised estimates for the direct costs and benefits, to create NPV estimates for the direct impacts for consumers. To address uncertainty, we have developed ranges around the direct costs and benefits. These have been used to derive a low, central and high case for each reform package. Our approach is described in the IA and the results are summarised in the chart below.

Figure 12: Direct monetised consumer NPV, by reform package, (2018-2035), (£millions)



4.30. We have also combined the direct NPV ranges above with Scenarios 1 and 3 of the indirect benefits. This provides an illustrative range for the net (direct and indirect) benefits to consumers. This is shown in Figure 13 below:

Figure 13: Direct monetised consumer NPV and illustrative indirect benefits, by reform package (£millions)



4.31. For RP2a, the illustrative range is from £227m to £1,069m. The net benefit to consumers would be expected to be even greater than these figures suggest, as they do not capture the wider benefits that we would expect to result from encouraging greater competition and innovation in the market.

4.32. The IA demonstrates that RP2a would deliver the highest potential positive combination of monetised and non-monetised net benefits for consumers, with the greatest level of confidence of them being achieved. Our sensitivity analysis also demonstrates that our conclusions are not highly sensitive to a range of uncertainties, including a delay to the programme implementation or a significant lasting reduction in the financial reward from switching.

4.33. RP2 and RP3 would deliver similar outcomes for consumers as RP2a, but at higher costs and offering worse value for money. RP1 could not be expected to deliver the same level of increased engagement as it would offer less reliable and slower switching than the other packages. It could also hold back potential future innovation and competition in the market due to the retention of existing separate systems and governance structures for gas and electricity. We have therefore concluded that RP1 would have the lowest net benefit to consumers.

Performance against the programme objectives

4.34. In addition to producing an assessment of the net benefits for consumers of each reform package, we have also used our analysis to rate each of the packages' performance against our programme objectives. These ratings are set out in the table below.

Table 2: Summary of the performance of each reform package against Ofgem's Switching Programme objectives

Programme Objectives		RP1	RP2a	RP2	RP3
1. To improve consumer experiences and perceptions of changing supplier, leading to increased engagement in the market, by delivering a switching service that:	a) Is more reliable, thereby reducing the instances of consumers being let down by delayed, unsuccessful or unwanted switches.	✓	✓✓✓	✓✓✓	✓✓✓
	b) Offers consumers control over when they switch, including providing the capability of doing so as fast as possible, and by no later than the end of the following day after a consumer has entered into a contract.	✓	✓✓	✓✓✓	✓✓✓
	c) Minimises any differences in consumer experiences of the switching process, to the extent that is possible, taking into account any physical constraints imposed by metering and issues relating to consumers' indebtedness.	✓✓	✓✓	✓✓	✓✓
2. To deliver a simple and robust system architecture design that harmonises business processes across the gas and electricity markets where possible, and is capable of efficiently adapting to future requirements.		✗	✓✓	✓✓✓	✓✓✓
3. To encourage more effective competition by minimising barriers to entry for new entrants to the market, including the extent to which a successful switch may rely on the actions of an incumbent, and by		✓	✓✓	✓✓	✓✓

having appropriate safeguards in place where this is not possible.				
Cost-effectiveness (as per the programme's overarching objective)	✓✓	✓✓✓	✓	✓
Overall assessment against programme objectives	✗	✓✓✓	✓✓	✓✓

Conclusions

4.35. Our analysis lets us draw the following key conclusions:

- RP2a – reliable next-day switching - is preferred because it offers the most cost-effective solution to deliver fully on our programme objectives. Our analysis also gives us a high degree of confidence that the package would deliver significant net benefits to consumers. In particular, the increased competitive pressure that will result from a more credible threat of consumer switching will lead to better outcomes for consumers. A reduction of around just 60 pence to the average annual household energy bill, as a result of increased competition in the market, would offset the total gross costs incurred by the industry that we expect to be passed through to consumers.
- RP1 – enhanced existing systems – would not deliver sufficiently on our objectives to be considered an acceptable outcome for the programme. In the absence of investment in a new single central system with simplified governance arrangements, we would be locking in a potential brake on future innovation for many years to come. We would also be choosing to retain the separate systems and processes for gas and electricity when we know that the majority of consumers prefer to operate in a dual fuel market. In addition, our analysis has shown that RP1 is not capable of delivering on both more reliable and faster switching in parallel. For these reasons, RP1, and any variants on RP1 that retain the existing fragmented arrangements, has been dismissed.
- Mandating all suppliers to introduce the necessary systems and processes to operate same-day switching (instant reactive objections and running calendar day operations), which are the key differences between RP2a and RP2 (same-day switching), would create additional costs. At present, we do not consider these more ambitious options to offer as good value for money for consumers as RP2a.

- We have also concluded that the additional industry-wide costs of implementing and operating with a DCC procured MIS, as described in RP3, – same-day switching with enhanced information provision – does not represent good value. While this has not been a material factor in rejecting RP3, we note that industry is now taking forward a programme of work to introduce a new gas and electricity enquiry service that would include the features of the MIS, with the aim of achieving the benefits of a single, central enquiry service.⁷²

Our decision

4.36. In our September 2017 consultation, we explained to our stakeholders the reasons why RP2a was our preferred option. Following a review of the feedback we received, and of our updated analysis, we hold the same conclusion. **We have therefore decided to proceed with RP2a on the grounds that it will deliver significant net benefits to consumers, while offering the best fit against our programme objectives.**

4.37. In addition to this commitment to enabling ‘next-day’ switching, as defined within RP2a, we are also confirming our proposal to introduce a backstop regulatory requirement to switch a customer within five working days of entering into a contract, unless the customer has requested a later date. We have also decided to proceed with a transitional period immediately following introduction of the new arrangements to protect against any unforeseen issues with reliability. During this transitional period we will expect suppliers to operate a five-working-day switch as a default, with obligations that suppliers would have to meet if they wish to switch customers faster than five working days and/or penalties for switching a customer erroneously.

4.38. We will publish, in due course, proposals for those additional obligations and penalties, and proposed objective criteria for ending the transitional period.

⁷² Development is being taken forward by Gemserv in its role as the central code body for the MRA and by Xoserve in its role as Central Data Service Provider under the UNC. We welcome this initiative and we will continue to work closely with industry through our membership of the MIS Programme Board as well as the Joint MIS Development Group (JMDG).

5. Commercial Case

Chapter summary

The commercial case considers whether there is sufficient capability, capacity and appetite in the market to deliver the requirements of the programme. We set out here what the intended procurement process looks like and progress to date, including the outcomes of market analysis and engagement so far. This section also sets out a potential change of approach on the provision of communication network capability and provides our response to the UK Link consultation published in July 2017.

This chapter builds on the commercial case in the Strategic Outline Case, and is largely new material, reflecting the more developed stage that the programme has reached.

Procurement

Overview

5.1. Our switching reforms require the implementation of a new CSS, supported by a managed address service. Under its licence, DCC is responsible for procuring systems and services required to deliver the new switching arrangements. A Procurement Framework⁷³ has been established between DCC and Ofgem to guide and scope future procurement activity. Its purpose is to set out the 'how' for the procurement.

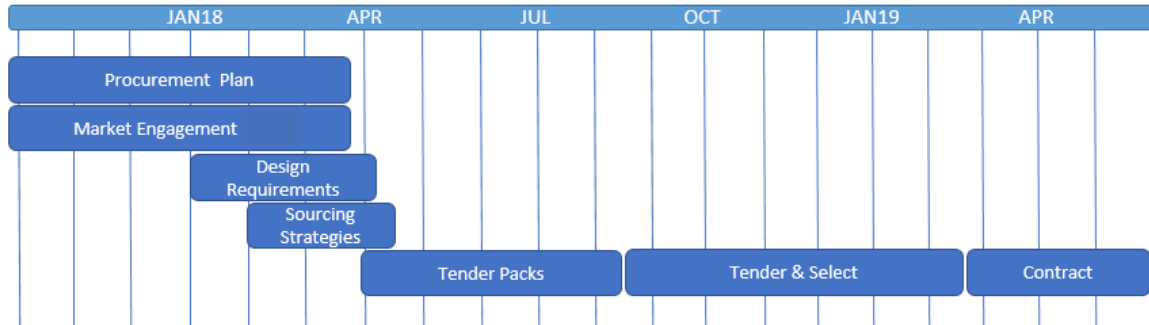
5.2. Initial procurement activities are underway and have focused on developing the Procurement Plan and carrying out early stage market engagement. The Procurement Plan will set out:

- the systems and services that need be to procured
- how these procurements will be structured as projects
- the intended timing, process and form for each project to be procured.

5.3. One of the key aims of the Procurement Plan and initial market engagement is to describe and validate how the Switching Programme requirements will be formed into procurement projects to take to the external marketplace.

⁷³ Published January 2017: <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-procurement-framework>

Figure 14: Sequence for procurement activities



(Note: This timing does not preclude aspects being procured on a different timeline if required or determined to be optimal for the delivery of the programme.)

5.4. Our intention is to continue the strong engagement on procurement with programme stakeholders through our programme governance groups as thinking develops.

Market Analysis

5.5. DCC is in the process of analysing the wider market capability to deliver against the switching service requirements. This analysis, with input from market engagement and aligned with the design and user requirements, should allow DCC to identify the most appropriate sourcing approach to drive the desired programme outcomes. This will be documented and published within the Sourcing Strategy for each procurement project (expected to be in April 2018), having tested if the procurement projects are feasible and achievable based on market capability.

5.6. DCC is engaging in a two-phased approach to market engagement:

- **Early Market Engagement:** DCC has held two broad market events engaging stakeholders from 30 different organisations to discuss the programme and inform ongoing considerations. As part of this a Request for Information (RFI) has been issued by DCC to scope and assess the options available and help shape the Procurement Plan.
- **Detailed Market Engagement:** This phase includes analysis of RFI responses which, in conjunction with an independent review of industry available technology, should provide insight into areas such as market interest, capability and technology options. Further validation activities will be performed through direct engagement of industry solution providers, along with engaging wider research services.

5.7. DCC has engaged a third party reviewer to scope and assess the potential technology options available against high level programme requirements. With input from industry stakeholders, the third party reviewer will carry out an assessment of the whole industry impact of potential solutions.

5.8. Analysis to date suggests there should be good interest from the market. We therefore think that the scale and scope of the procurement projects are appropriate to attract a mix of small and large, and new and established companies. This should allow for a strong competitive procurement exercise.

Defining procurement projects

5.9. The approach to defining procurement projects will reflect the functional and non-functional requirements as well as being shaped by the technology and commercial considerations from market engagement and wider analysis. These considerations should support DCC in identifying which products or services could be linked for procurement purposes and those that should be procured separately.

5.10. Based on work to date, a number of potential grouped products / services that DCC is expected to procure have been identified. This work will continue to evolve. The current position includes, but is not limited to:

- CSS
- address service
- service and operations system integrator
- core systems assurer

The communication network provision will be managed as outlined in paragraph 5.19 (Approach to Communication).

5.11. We also anticipate that Ofgem will procure third party organisations to carry out programme coordination, programme assurance and licenced party assurance. Ofgem's current intention is that the funding for these roles will be sourced from licenced parties, however the mechanism for this funding is still under consideration.

Sourcing strategy

5.12. The sourcing strategy will be further informed by market analysis to develop a long list of potential suppliers and drive the recommended procurement route to market. The route to market and process followed will also be governed by DCC's licence obligations and the binding principles set out in its Procurement Strategy⁷⁴. This will be of particular importance to those procurement projects that are classed Fundamental Registration Service Capability where the strategy sets out principles to follow in the procurement process, contractual terms and eligible bidders. Further considerations for the contract and delivery approach will include:

- segmentation of projects
- ability of potential vendors to form combined or consortia proposals
- ability to fairly assess 'best of breed' alongside consortia / lead contractor bids

⁷⁴ https://www.smartdcc.co.uk/media/410997/dcc_procurement_strategy_v_5.0.pdf

- systems or services which may benefit from being procured together
- procurement projects where independence of providers from other awarded contracts may be required eg core systems assurer
- approach to contact management and accountability during delivery.

Initial evaluation considerations

5.13. Evaluation criteria for each individual procurement project will be developed by DCC ahead of tender packs being issued. Initial high-level criteria will be presented within the Procurement Plan and further developed in parallel with the Sourcing Strategies. The evaluation criteria will be detailed within the Evaluation Methodology which will form part of the issued Tender Packs. The Evaluation Methodology will describe how responses to the tender will be assessed and include a description of:

- how scoring will be allocated and weighted
- how bids will be assessed for compliance and scored
- how the outcome will be validated through DCC internal governance.

5.14. Development of the evaluation criteria will allow for input from industry with Ofgem agreeing the final form to help ensure they reflect the programme objectives. Initial discussion of general criteria has been held with the Commercial Forum and discussion with stakeholders will continue as individual criteria are developed. Initial views on evaluation criteria are set out in Table 3 below.

5.15. A key consideration within the evaluation will be a value for money assessment taking into consideration, to the extent that it can be understood, the full cost across the lifetime of the service on the whole of industry. As a minimum this should account for the central cost of any solution, the cost to integrate with industry, adaptability to future market change and delivery risk.

Table 3: Proposed high-level evaluation criteria which will form the high level basis of the detailed evaluation framework

Technical / Functional and Non-functional criteria:	Quality criteria:
<ul style="list-style-type: none"> • Functional capability • Non-functional capability • Suitability of functional solution 	<ul style="list-style-type: none"> • Integration with the wider programme and industry • Scenario based value add / innovation response • Cost of change / adaptability • Delivery and risk assessment • Programme/ project management capabilities • Quality of customer service • Compliance with monitoring and contract management • Satisfactory staffing and management arrangements • Knowledge and ability to work with client or user group • Capacity
<p>Commercial criteria:</p> <ul style="list-style-type: none"> • Whole life costs of solution and consequential costs to the industry • Price / affordability • Legal - acceptance of terms and conditions • Service provider stability • Commercial arrangements 	

5.16. It is important to ensure that the evaluation of any bids as part of a DCC-run procurement process take into consideration both the solution requirements and the needs of industry. As such we are working with DCC to explore options for an independent representative from the Retail Energy Code (REC) to be a part of the formal evaluation panel. Our aim is to have the REC representative in place in advance of tender packs going out in August 2018.

5.17. Through programme governance groups we are working to ensure that industry programme stakeholders are kept informed during the procurement process with options to review recommendations for wider project implications / dependencies and considerations. We anticipate that a group will be formed from members who have:

- declared themselves independent of potential bidders
- agreed to a Terms of Engagement / Non-Disclosure Agreement .

5.18. This will allow those members to act as a source of guidance and expertise as the procurement progresses. It is intended that this group should reflect a cross-section of the industry including small / new entrant energy suppliers. This should allow DCC to consult with this group during the procurement and evaluation process as part of an informal review board. This will be further outlined within the DCC's Procurement Plan due to be published early spring 2018.

Approach to CSS communication requirements

5.19. In the September consultation, we proposed that DCC should be required to competitively procure the communications network capability needed to deliver the new switching arrangements. A number of respondents disagreed, suggesting that it would be more appropriate to use the existing industry communications networks to minimise cost and avoid further fragmentation of industry communications. Those who were advocating the use of existing systems predominantly argued in favour of the use of DTN, with some arguing for the IX Network.⁷⁵

5.20. In the light of comments received we have concluded that procurement of a dedicated communications network is an appropriate and acceptable approach but might not offer the best outcome for industry. We are consequently planning to explore an alternative approach under which the CSS would be designed to be able to communicate with users over any existing industry networks, or other networks to be added subsequently, at the choice of the end user.

⁷⁵ The DTN is a messaging and communications network that supports data transfer in the electricity and gas industry. The DTN is managed by Electralink. The IX Network facilitates file transfers between various critical systems and shippers in the gas industry. It is managed by Xoserve.

5.21. This approach would have the merit of allowing end users to continue to use existing connections and hardware, while also allowing competition between networks for users and the potential to introduce new networks should the need arise.

5.22. DCC has considered the cost implications of this approach and advises that there is a small (approx. £150k) expected additional cost in terms of CSS build and test. We would expect this to be largely offset by reductions in cost to industry participants (who would be able to continue to use existing mechanisms) and the avoided procurement cost.

5.23. The new approach raises a number of questions which we have not yet had time to explore in detail around the technical, commercial, financial, and governance issues that might arise. We plan to explore those issues, including with providers of existing networks and DCC potentially conducting a market testing exercise, before reaching a final conclusion on the best approach for communications network capability for the CSS. We do not intend to consult further on this issue before making a decision as we are confident from the responses to the previous consultation that either approach (competitive procurement or use of existing networks) would be appropriate to pursue.

UK Link consultation and next steps

5.24. In July 2017, we published a consultation⁷⁶ on the potential for UK Link to be used as the basis for the CSS. 31 responses were received.⁷⁷ The majority of the responses agreed with the proposition that UK Link could provide an effective basis for the CSS and that re-use of an existing industry switching system might de-risk delivery of the new switching arrangements. The responses predominantly also said that this should be tested through competition and that the Switching Programme should ensure that the procurement process was structured such that UK Link was able to be fairly evaluated against other options. Some respondents saw risks in re-use of UK Link, primarily around conflicting priorities within Xoserve. A number of respondents pointed out that MPRS might also be capable of re-use as the basis for the CSS and urged us to consider both systems.

5.25. In November 2017, Ofgem commissioned Baringa Partners to carry out a technical assessment of both UK Link and MPRS to test the viability of each system to deliver the requirements of the CSS as set out in RP2a and recommend any considerations that should be reflected in the procurement process to ensure that they could be fairly evaluated alongside other options.

5.26. That technical assessment⁷⁸ concluded that both MPRS and UK Link could be adapted to deliver the requirements of RP2a and that it would be desirable if both

⁷⁶ <https://www.ofgem.gov.uk/publications-and-updates/uk-link-and-proposed-central-switching-service>

⁷⁷ Also published at the link above

⁷⁸ https://www.ofgem.gov.uk/system/files/docs/2018/02/viability_assessment_report_summary_report_on

could be considered within the procurement process. Baringa Partners made a number of recommendations related to the procurement process that would ensure that the existing switching systems could participate in the procurement process and be fairly evaluated. We are taking these recommendations forward, with DCC, in the design and operation of the procurement process.

5.27. The consultation also noted that Xoserve, as the Central Data Service Provider (CDSP), was constrained by its governance in respect of the ability to offer third party services. We identified a number of approaches to removing those constraints. Most respondents agreed that the constraints needed to be addressed but should not pose an insurmountable problem. We will work with Xoserve over the coming months to identify how it wishes to proceed, and will provide support as necessary in ensuring that governance structures do not prevent it from taking part in the procurement process.

Risk sharing and price control

5.28. In the September consultation we sought views on whether it was appropriate to extend DCC's role to cover the DBT and early years of operation of the central systems and services required to implement the new switching arrangements after selecting preferred bidders and negotiating contracts. Paragraphs 8.10. - 8.19. confirm our intention in principle to do so, and set out more information about the licence changes required.

5.29. In extending DCC's licence obligation to cover the DBT phase and early years of operation of the service we need to put in place a price control framework to regulate DCC's revenue for its activities during these phases of the programme. We will consult in early summer on a proposed price control framework. At its simplest this may be a continuation of the current ex-post plus arrangements, with consideration to the appropriate level of margin to be applied. We will further consider an approach that could include a structure for risk-sharing between DCC, consumers (via DCC service users), and the third-party service providers DCC would contract with to implement and operate the new Central Registration Service (CRS)⁷⁹. A risk-sharing structure could be shaped by different design features including:

- timing of our decisions on DCC's revenue allowances (eg ex ante or ex post decisions)
- length of time the price controls will be in place for
- mechanisms for accommodating uncertainty in DCC's revenue requirements during the price control periods

[the viability of reusing existing uk energy switching solutions for css.pdf](#)

⁷⁹ The term Central Registration Service (CRS) is used within the DCC licence but has been superseded by the term CSS within the programme. The definition of CRS in the licence is intentionally broad and covers the definition for CSS.

- a performance incentive regime which makes any achievable rate of return to DCC contingent on its performance and the performance of the third party service provider(s) it has contracted with for the CSS.

5.30. We will further develop our thinking on the features and overall risk sharing structure iteratively alongside our thinking on the price control framework. We will involve stakeholders through our programme governance prior to a planned policy consultation in early summer 2018.

6. Financial Case

Chapter summary

The material in this chapter is updated from the Strategic Outline Case. The financial case sets out the funding arrangements that are in place for the programme, its overall affordability and our view of the additional financial arrangements that would be required to deliver the Switching Programme.

6.1. The development, delivery and operation of the switching arrangements described in RP2a would require expenditure from a range of stakeholder groups. It is important that these are affordable and that there is a clear mechanism for funding.

6.2. In this financial case, we set out the arrangements for funding the capital and revenue requirements of the programme for RP2a. We cover:

- financial implications for stakeholders
- funding arrangements for different stakeholders
- commitments from stakeholders to support the programme
- regulatory levers available for external funding requirements.

Financial implications of RP2a

6.3. The high-level design of RP2a has been developed in the Blueprint phase with further detailed work taking place in the parallel DLS phase. This has involved workgroups with representation from parties to the codes in scope of the switching SCR. There has also been representation from other stakeholders such as consumer bodies and Third Party Intermediaries (TPIs) and an industry-wide consultation in September. These activities have required resource contribution in the form of meeting attendance, the development or review of products (eg those outlined in Appendix 3 and 4 of this document, and providing consultation responses. We expect this involvement to continue through the remaining phases of the programme.

6.4. The main design costs for the new switching arrangements are currently being met by Ofgem, industry code administrators and DCC. These parties along with industry trade bodies have provided dedicated resource to the programme design teams while a central Ofgem programme team has been in place to lead and manage the programme. These costs are shown in Table 4 below.

6.5. The remaining central costs of the programme comprise the completion of development of the design of the new switching arrangements, the development of the associated regulatory framework, the costs of procuring, building and operating the new systems and services, and the cost of programme management, assurance and co-ordination throughout DBT. Current estimates for those costs are also included in Table 4 below.

6.6. The central costs of developing the new switching arrangements will be met by Ofgem, industry code administrators and the DCC. The cost of the procurement, implementation and operation of new central systems will be met by DCC. Centralised programme management, coordination and integration costs will be met by DCC, Ofgem and, potentially, industry code bodies as appropriate.

Table 4: Central costs (Ofgem, DCC and Industry Code Administrator) for transition (£000s)

Party	Budget (£000s)				
	2016/17	2017/18	2018/19	2019/20	2020/21
Ofgem ⁸⁰	1,700	1,900	1,930	1,500	1,100
DCC ⁸¹	2,360	5,300	17,660	16,260	18,900
Industry Code Administrators ⁸²	1,180	1,880	1,600	TBC	TBC
Programme Assurance & Coordination ⁸³				2,500	2,500

6.7. In addition to these centralised costs, one-off implementation expenditure and ongoing operational expenditure will be required from a range of industry parties to deliver the new switching arrangements. We expect the type and level of expenditure to differ according to stakeholder group. Primarily these costs will sit with energy suppliers and their agents, with some costs also sitting with gas transporters and electricity network operators and their agents. The financial implications for these parties are described in the section below. The estimated transitional and ongoing costs for each stakeholder group are described in Chapter 3 of the IA.

Financial implications for gas and electricity suppliers, gas shippers and other service providers

6.8. Gas and electricity suppliers will need to invest in adapting their internal systems and business processes, and their communications with industry systems to implement the changes described in any of the reform packages. This will include investment in changing and testing the functionality of their internal data management and communication systems and retraining their staff. Suppliers will also incur costs that are passed through from DCC and code administrators.

⁸⁰ Ofgem estimated costs for 2018-19 and beyond are yet to be approved and subject to further review.

⁸¹ DCC costs are for the transitional phase (to contract signature) and include margin & overhead but exclude contingency. DCC costs for DBT activity are estimated from IA analysis and are undiscounted and exclude PMO and assurance costs. These will be refined further in DCC's DBT phase Business Case (to be developed).

⁸² Code Administrator costs for 18/19 are provisional and are subject to panel approvals. Estimates for programme assurance in the DBT phase of the programme are excluded.

⁸³ PMO/Programme Assurance and Coordination costs are estimated and are expected to be met by DCC or by code administrators (to be determined).

6.9. We also expect ongoing impacts on these parties' operating costs, both positive and negative. For example, cost-savings may be achieved through increased automation and availability of their internal systems and alignment in processes between gas and electricity. Costs may rise through an increase in the incidence of exceptions or in the resource allocated to preventing exceptions which could have greater impacts under the reforms if they materialise than under the current arrangements.

6.10. As most gas shippers and gas suppliers are part of the same organisation, we are not expecting the move to a supplier-led switching process under RP2a to have a material impact on costs. For those suppliers that currently use a third-party shipper to manage their interactions with UK Link, we also do not think that the move to a supplier-led process will have a material impact. This is because our design will allow the shipper to act as the supplier's switching agent should the parties wish to adopt that arrangement.

6.11. Other parties that provide services used by suppliers may face similar financial implications. For example:

- MOPs and MAMs will need to review their appointment arrangements to ensure that they can, when required, operate in a next-day switching environment.
- We expect gas MAPs to make changes to their systems and processes to make use of additional information that will allow them to improve invoicing for assets.
- TPIs, in particular PCWs, will need to review their operational arrangements, including the speed with which consumer contracts are passed to suppliers and how to use any new data items to which they will have access to support fast and reliable switching.

Financial implications for gas transporters, electricity distribution network operators and their agents

6.12. RP2a has cost implications for GTs and the electricity DNOs. These licensees are currently responsible for registering and processing changes in the contracted supplier for meter points and providing or contributing to the provision of related industry enquiry services.

6.13. These companies will be required to make changes to the functionality of the central systems and business processes that support the current switching processes in electricity and gas respectively.

6.14. In electricity, these systems are managed by the different DNOs for their respective regions, and in gas, they are managed centrally by Xoserve. The related industry enquiry services would also continue to be managed by existing providers (Xoserve in gas, and the Master Registration Agreement code administrator in electricity) in this reform package. In addition, we anticipate DNOs and GTs no longer providing individual consumer enquiry services for consumers to find out their Meter Point Number (MPxN) or their supplier.

6.15. Networks are expected to incur costs for holding additional data items and contributing to an initial data cleanse and migration exercise to support go-live. They will need to remove arrangements that directly support the consumer switching process and they will also need to establish new interfaces with the CSS and remove the interface to update the Data Service Provider (DSP). On an ongoing basis, networks will also need to exchange data (eg for new connections) with the CSS.

6.16. Networks have provided information that suggest that RP2a, with the loss of the consumer enquiry service, will have a net saving for DNOs and GTs (see Chapter 3 of the IA).

Funding arrangements

6.17. Below we describe the funding arrangements for Ofgem, DCC, industry code bodies, suppliers and their service providers as well as networks and their agents. Our view is that appropriate funding will be available.

Ofgem funding arrangements

6.18. Ofgem is funded via fees levied on licensed companies subject to agreement from HM Treasury on its overall annual revenue. Decisions made within Ofgem to allocate its budget to specific projects and work programmes are made on an ongoing basis by the Performance and Delivery Board. These decisions are made on the basis of a business case submitted by project or programme teams which include activity planning in support of a budget proposal. For the Switching Programme, we have received a multi-year budget approval covering the full life of the programme which we review on an annual basis.

DCC funding arrangements

6.19. In May 2016, we introduced licence obligations on DCC to support the Switching Programme. These cover DCC's activity to support the design and identification of requirements for the new switching arrangements and CRS, and to procure a new CRS through competitive tender on direction from Ofgem. Alongside those licence obligations, we modified the scope of DCC's allowed revenue to include economic and efficient expenditure required to discharge these obligations. DCC is therefore able to charge industry parties for this expenditure. It does so according to charging principles set out in its licence and a methodology set out in the Smart Energy Code (SEC).

6.20. In September we consulted on the principle of extending DCC's licence obligations to cover its role during into DBT and early years of operation. Paragraphs 8.10 – 8.19. confirm our intention in principle to do so, and set out more information about the licence changes required. Our intention is to consult on the licence wording in early summer 2018, together with proposals in relation to the price control arrangements for DCC's role in supporting the Switching Programme for this extended period.

Current framework

6.21. DCC's smart metering and switching price control arrangements are based on an ex post principle. This means DCC estimates its required efficient expenditure for the year ahead to fulfil its licence obligations and passes these on in the form of service charges to its users. Ofgem reviews its incurred costs in the year following the regulatory year in which they were incurred. Where we consider that spending has been inefficient, costs can be disallowed. These decisions and any forecasting errors DCC has made in estimating its efficient expenditure needs for the year ahead are reconciled with the revenue DCC actually receives through adjustments in its charges to users in subsequent years.

6.22. The price control arrangements in place to cover DCC's activities under these switching licence obligations involve additional reporting requirements on DCC compared to its smart metering price control. We refer to this as an 'ex post plus' price control. Under these arrangements, DCC is obliged to set out a plan of activity and justify its forecast costs in an upfront business case. This makes its projected activity and forecast costs transparent. For price control purposes, we will continue to review DCC's costs to ensure they have been incurred economically and efficiently after the end of the regulatory year and make decisions on its allowed revenue. For the transitional phase of the Switching Programme this is done on a zero baseline basis, ie all incurred costs should be justified. DCC is also obliged to report quarterly to the price control team on an informal basis on its incurred costs and updated forecasts so any potential concerns can be flagged early. DCC's achievable margin for this phase of the programme is subject to its performance in meeting certain delivery milestones to a required quality by a set date.

6.23. DCC also reports monthly to the programme on incurred costs, delivery progress, updated forecast costs and planned activity. This regular reporting is done in relation to the most recent baselined version of the DCC business case and programme plan which have been agreed by the programme as a suitable baseline for financial and delivery reporting to the programme. A version of the programme plan was independently assured in September 2017 as achievable with careful management. This plan has been used to form an updated business case⁸⁴ which will be published in February 2018. This baseline reflects RP2a and has seen DCC's budget for the full transitional phase decrease from £24m to £17m. DCC will be updating this business case following detailed design work and procurement planning for the Switching Service (summer 2018) to reflect greater clarity on what aspects DCC will need to procure and how any procurements will be structured.

Proposed price control framework

6.24. By the start of DBT, DCC will have entered into a series of contracts with service providers to deliver the switching service. At a high level, we would expect

⁸⁴ <https://www.smartdcc.co.uk/about-dcc/future-service-development/switching-programme/>

these contracts to include agreed deliverables and SLAs as well as the baseline costs associated with these deliverables that the provider will receive payment for. We anticipate that DCC will have a contract management and general support role in helping to ensure the successful delivery of the switching service.

6.25. Given the level of uncertainty around costs and scope for the DBT phase, our current thinking is that an ex post plus price control regime would best meet the desired outcomes of delivering a quality service within programme timelines while also providing transparency to stakeholders through the upfront business case and regular reporting. We will consult on this further in early summer 2018, setting out rationale and further detail for how any framework would work.

6.26. The chosen price control framework should allow for a level of risk sharing including an incentive regime which makes any achievable rate of return to DCC contingent on its performance and/or performance of the third party service provider(s) it has contracted with.

6.27. As with the transitional phase incentives, we will consider setting a number of milestones for DCC to meet. These will reflect key programme deliverables across the whole of DBT and early years of operation. Potential options for DBT that we will explore could include:

- validated CSS systems in place to facilitate proceeding with data migration
- proven CSS systems warranted for uplift to a live 'production' status.

6.28. The incentives should also aim to encourage innovation, quality and timely delivery along with economic and efficient operations. We will also further consider options for financial incentives to be linked wider performance metrics including stakeholder engagement.

6.29. If we were to conclude that an ex post plus regime was the best option, we would require to DCC to develop a transparent business case outlining its forecast costs, activities and timelines for DBT and early years of operation. We anticipate DCC would start work on this in summer 2018 and develop it collaboratively with industry over 2018 and early 2019 ahead of the start of DBT in spring 2019.

6.30. We will take our proposals for DBT and early years of operation forward through the programme forums in 2018 ahead of an initial consultation in early summer 2018 and final consultation in autumn 2018.

6.31. Our intention remains to shift to an ex ante price control regime for steady state enduring operations. We could also consider an earlier move to ex ante if all of DCC's activities beyond the Switching Programme shifted to an ex ante model. We would consult with industry before any changes are made.

Proposed funding arrangements

6.32. Under the current funding arrangements, the costs associated with the development, documentation and procurement of the CSS are being met by users of

the DCC Services through monthly fixed charges. Broadly, the CSS is currently being funded by energy suppliers and DNOs. The methodology for determining these charges is in Section K (Charging Methodology) of the SEC.

6.33. Our proposal is for current funding arrangements for the CSS to continue during DBT. We envisage that funding for the DCC to manage and operate the CSS could transfer to the REC when the REC is fully formed in its enduring capacity. Our intention is to consult with industry on these proposals later on in the programme.

Next steps

6.34. We will be further developing thoughts on the proposed framework across the programme. We will set this out in more detail for the proposed early summer 2018 consultation which will include the detail of DCC's role. We will then carry out a statutory consultation towards the end of 2018 for any required licence modifications. We anticipate this will be in parallel with consultation ahead of issuing a direction to DCC to set out DCC's allowable margin and performance milestones and/or metrics to be met as part of an incentive regime.

Code administrator funding arrangements

6.35. The code administrators for the industry codes in scope of the switching SCR⁸⁵ are funded by code users (including suppliers, gas shippers, network companies and DCC). Their budgets are typically set and approved by the code panels or a forum or committee that represents their funders, the code parties.⁸⁶ Under some codes, Ofgem has a role in settling disputes over code administrators' budgets.

6.36. The charging mechanisms for the code administrators recovering these costs are generally specified in the codes themselves. In the case of SECAS, its costs are recovered by DCC charging a fixed amount to SEC parties and these costs are treated as pass-through under the price control. In the case of the Uniform Network Code (UNC), the administrator's costs are paid for by gas transporters under their price control, though an element of the 'user pays' principle is applied in relation to certain code modifications.

Funding arrangements for gas and electricity suppliers, gas shippers and other service providers

6.37. Suppliers and their service providers (metering agents, MAPs and TPIs) are subject to specific regulations and contractual requirements. They will be required, though these mechanisms, to make the changes necessary for the programme. These parties will be expected to fund any necessary changes through sales revenue and discretionary capital-raising activities. We note that those organisations that

⁸⁵ UNC, SPAA, MRA, DCUSA, BSC and SEC

⁸⁶ Elexon, the code administrator for the BSC is an exception.

provide services to supplier, eg metering agents, may seek to pass these costs through or to fund them through other mechanisms.

Funding arrangements for gas transporters, electricity distribution network operators and their agents

6.38. The GTs and electricity DNOs hold monopoly positions in the energy industry, and so we regulate their revenues through price controls. Price controls are a method of setting the amount of money (allowed revenue) that the companies can earn over a specified time period.⁸⁷ These companies recover their allowed revenues from their charges to industry parties which are ultimately paid for by consumers. We must set the revenues at a level which covers the companies' efficient costs and allows them to earn a reasonable return subject to them delivering value for consumers including a number of pre-defined outputs. They are incentivised to do so by various financial incentives, as well as reputational incentives, such as public reporting on delivery.

6.39. The scale of the expected financial impacts on DNOs of the implementation changes required by RP2a is minimal (relative to their overall expenditure requirements). Therefore, we do not expect the financial implications of the programme's reforms on DNOs to qualify for any of the categories for revising the allowed revenue allowances prior to 2023.⁸⁸ The actual expenditure DNOs incur will feed into the base revenues and investment amounts calculated for the purposes of setting subsequent price controls. DNOs are set total expenditure (totex) allowances that can be used flexibly across all cost items. Therefore, these companies may fund the shortfall through discrepancies between their allowed revenue and actual expenditure on other cost items, and/or through their retained earnings. Any cost savings or cost increments compared with price control allowances set are shared between consumers and DNOs.

6.40. Independent distribution network operators (IDNOs) networks own and operate smaller networks located within the areas covered by the DNOs. They are mainly extensions to the DNO networks serving new housing and commercial developments. We regulate the amounts that IDNOs can charge their customers for

⁸⁷ We set allowances for Gas Distribution Networks (referred to as RIIO-GD1) in 2013 and for electricity DNOs (referred to as RIIO-ED1) in 2015, for an eight year period. These allowances factor in the current obligations on GTs to provide a supply point registration service and to provide or contribute to a related industry enquiry service. We have recently initiated the process for developing the next sets of price controls (called "RIIO-2"). This will result in new allowances being set from 2021 for gas and from 2023 for electricity.

⁸⁸ In electricity, there are mechanisms for DNOs to recover more or less revenue for uncertain costs. These include: (i) reopener mechanisms, (ii) close-out mechanisms, or (iii) pass-through costs. These mechanisms are built into the allowed revenue formula but do not cover the specific services the DNOs provide to support switching. The revenue allowances for some specific cost items can be reviewed during the price control period. We set the review points for most of these items but they can occur at any time for some cost items, subject to a prescribed trigger event occurring. The switching service provided by the DNOs is not included in the scope of these cost-specific revenue allowance reviews. There is potential for a mid-period review as part of the RIIO-ED1 price control, however, this review is restricted to cover material changes to existing outputs and/or the introduction of new outputs that are required to meet the needs of consumers and other network users.

using their networks via a 'relative price control'. This allows IDNOs to recoup revenue up to the equivalent DNO charge regulated through RIIO-ED1.

6.41. In gas, a broadly similar regime is in place to that in electricity. Uncertainty in the GTs' efficient revenue requirements is accommodated through uncertainty mechanisms. Xoserve's services were previously funded entirely through allowances in GTs' price control settlements. Xoserve's funding, governance and ownership arrangements were under review at the time of setting the initial RIIO-GD1 revenue allowance in 2013.

6.42. A one-off review of the allowance in GTs' price control settlement for Xoserve's services was expected and accounted for through an uncertainty mechanism in the RIIO-GD1 framework which could occur at any time during the price control period. We decided in October 2013 that a full cooperative governance model should be established for Xoserve which includes funding arrangements on a 'user pays' basis (whereby all industry users of Xoserve's services jointly fund Xoserve's activities).

6.43. To reflect this, in September 2016 we reduced the RIIO-GD1 allowance for Xoserve services, which took effect from April 2017. Approximately 70% of Xoserve's related costs are now set in the GTs' allowances until 2021, to reflect the proportion that will be paid by GTs based on the 'user pays' principle. However, we have committed to reconsidering its position to retain Xoserve's costs within GT allowances for future price controls. We may consider treating Xoserve's costs (or savings) as pass-through for GT revenues in future, based on the industry's performance in creating an efficient cooperative governance model for Xoserve from April 2017 onwards. This could give flexibility for changes in the scope of Xoserve's services to be fully reflected in the costs to consumers during price control periods.

Stakeholder commitments

6.44. In November 2015, alongside launching the SCR, we invited stakeholders to express interest in participating in Blueprint design working groups and senior advisory groups of the programme. These groups have shown the commitment of the industry to engage in the programme. This engagement has continued in the design groups for the DLS phase as well as the Switching Programme Delivery Group (SPDG)⁸⁹. SPDG's members have provided high-level support to the Switching Programme to drive forward progress and resolve delivery issues.

6.45. We have also convened a senior steering group chaired by Ofgem's chief executive officer, consisting of executive-level or equivalent representatives from energy supply companies, network companies, DCC and consumer bodies.

⁸⁹ This is used to monitor progress and agree actions required to mitigate major risks and resolve issues that could affect the successful delivery of the reforms.

6.46. As the programme moves into the Enactment phase, we are considering how best we can enable stakeholders to continue to engage with the programme and will be communicating any changes over the course of the coming months. This is described further in the next chapter.

Regulatory levers

6.47. We have explored the regulatory levers available to formalise commitments made by stakeholder groups to support the programme. Our approach is described in Chapter 7. In summary, we expect, during the Enactment phase, to introduce:

- transitional requirements on suppliers, GTs, DNOs and DCC to implement the programme, and
- enduring obligations on these licenced parties to operate the new switching obligations.

6.48. Work on the precise nature of these regulatory levers is ongoing and we expect to consult upon the detail of our proposals in the summer. We will also give further consideration to and consult upon the associated funding arrangements for any required outputs of the price controlled parties. For instance, we anticipate modifying DCC's licence to cover any obligations it has during the DBT phase and early years of operation phases of the programme and allow it to recover revenue related to its efficient expenditure in these phases.

7. Management Case – Programme Delivery

Chapter summary

This chapter looks at how the objectives of the programme are to be achieved from a practical perspective.

In particular we set out our overall management strategy and proposed plan and for each of the remaining phases of the programme, we provide details on:

- phase plan and key milestones
- roles and responsibilities
- governance structure
- stakeholder engagement approach

Inevitably this information is more detailed, and firmer, for earlier phases of the programme.

The subsequent chapter deals with the regulatory framework underpinning our management case.

Much of the material in this chapter concerning future phases of the programme is new. It represents the latest thinking on how these phases will be managed, though by necessity, much of the detail has yet to be developed. We plan to use existing programme governance processes for engagement with stakeholders on the proposals set out here, and will provide further certainty when the detail is more developed and agreed. We are publishing this material now in order to help market participants prepare to play their part in delivering the future switching arrangements work.

Context and management overview

7.1. Moving to reliable and fast switching will require substantial changes to current industry systems and processes. If not managed effectively, the changes involved could have a negative impact on consumers' experience of switching, as well as related industry processes such as billing and settlement. There could also be increased risks of delays and additional costs.

7.2. Below we set out the arrangements we think are needed to oversee the Switching Programme effectively over the coming phases to minimise risks to delivery that are inherent in a large-scale programme of IT systems change. We cover:

- management strategy overview and high level plan
- key programme activities
- roles and responsibilities
- governance
- approach to stakeholder engagement

7.3. Having the right governance structures, reporting requirements and communication channels in place will be an essential part of successful delivery. Throughout the remainder of the DLS phase and the Enactment phase, decisions will be made that will shape the detailed design and translation of this into regulatory requirements. Additionally, when any new systems and processes are being built, we may identify areas where the design should be amended. We will need to develop options to address new issues such as these, and escalate them through appropriate channels for consideration, before changes are agreed and updated information provided to relevant parties.

7.4. Coordinating the changes required to deliver reliable and fast switching arrangements in a multi-party environment will be challenging, particularly when other large-scale programmes of change, such as the smart meter rollout and settlement reform, are also underway.

7.5. As the switching arrangements are integral to the successful operation of the retail energy market, all relevant parties must have confidence that the new arrangements will work when they go live. If effective testing and assurance mechanisms are not in place, the new arrangements may not function as intended.

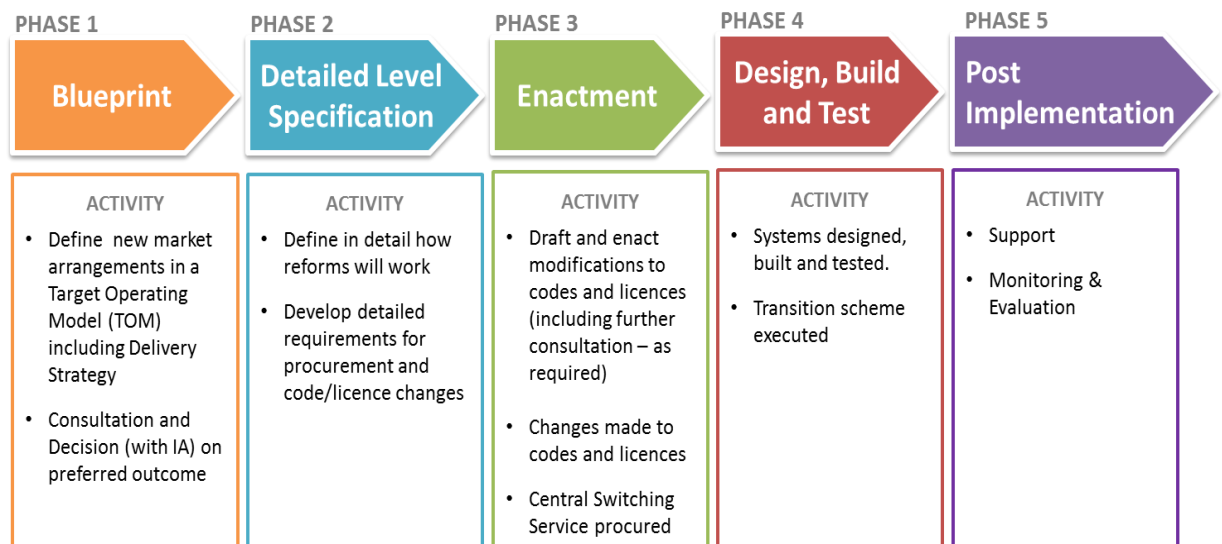
7.6. The programme's reforms will affect the operations of a large number of stakeholders. Ensuring coordinated and effective engagement of these stakeholders over the course of the programme will be a challenge. Additionally, detailed understanding of different aspects of the switching processes, knowledge of regulatory requirements and expertise in large-scale programme delivery are likely to sit in a range of different organisations. We want to make sure we have the right expert resource involved in the programme so that the final design, delivery approach, commercial arrangements and new regulatory framework are fit for purpose. We also want to make sure that strong, industry-wide commitment to the programme is maintained throughout.

Management strategy overview

7.7. We are conducting the programme in five key phases, which are shown in Figure 15 and are described in more detail below. This chapter deals with the current and future planned phases of the programme, and does not detail the work that has been undertaken in the Blueprint phase of the programme.

7.8. The first four phases of the programme are designed to be capable of overlapping so as to deliver the benefits of programme changes to consumers as soon as possible. The go-live decision will be between the DBT phase and the Post-Implementation phase.

Figure 15: Five phases of the Switching Programme



7.9. Through our programme management we want to ensure:

- the design of any new switching systems and processes delivers the objectives of reliable, fast and cost-effective switching⁹⁰
- the design of any new switching systems and processes is robust so that they function as intended, and align with other non-switching-related systems and processes
- we have the right mechanisms in place to identify any areas where the design is incorrect or unclear and then, to correct, clarify and disseminate updated information to all relevant stakeholders
- clear governance and decision-making arrangements are established, along with clear escalation thresholds so that decisions are made at the right level
- each individual affected party understands what the design means for them in terms of changes required, and service capability
- a robust testing regime is put in place with clear entry and exit criteria, through which parties can check that their own systems and processes are functioning as intended, and that individual systems can communicate with others
- all relevant parties have confidence that the new arrangements will work before moving to live operation.

7.10. We summarise how we intend to deliver these outcomes in the following sections.

⁹⁰ The programme objectives are set out in the Strategic Case in chapter 2.

High level plan

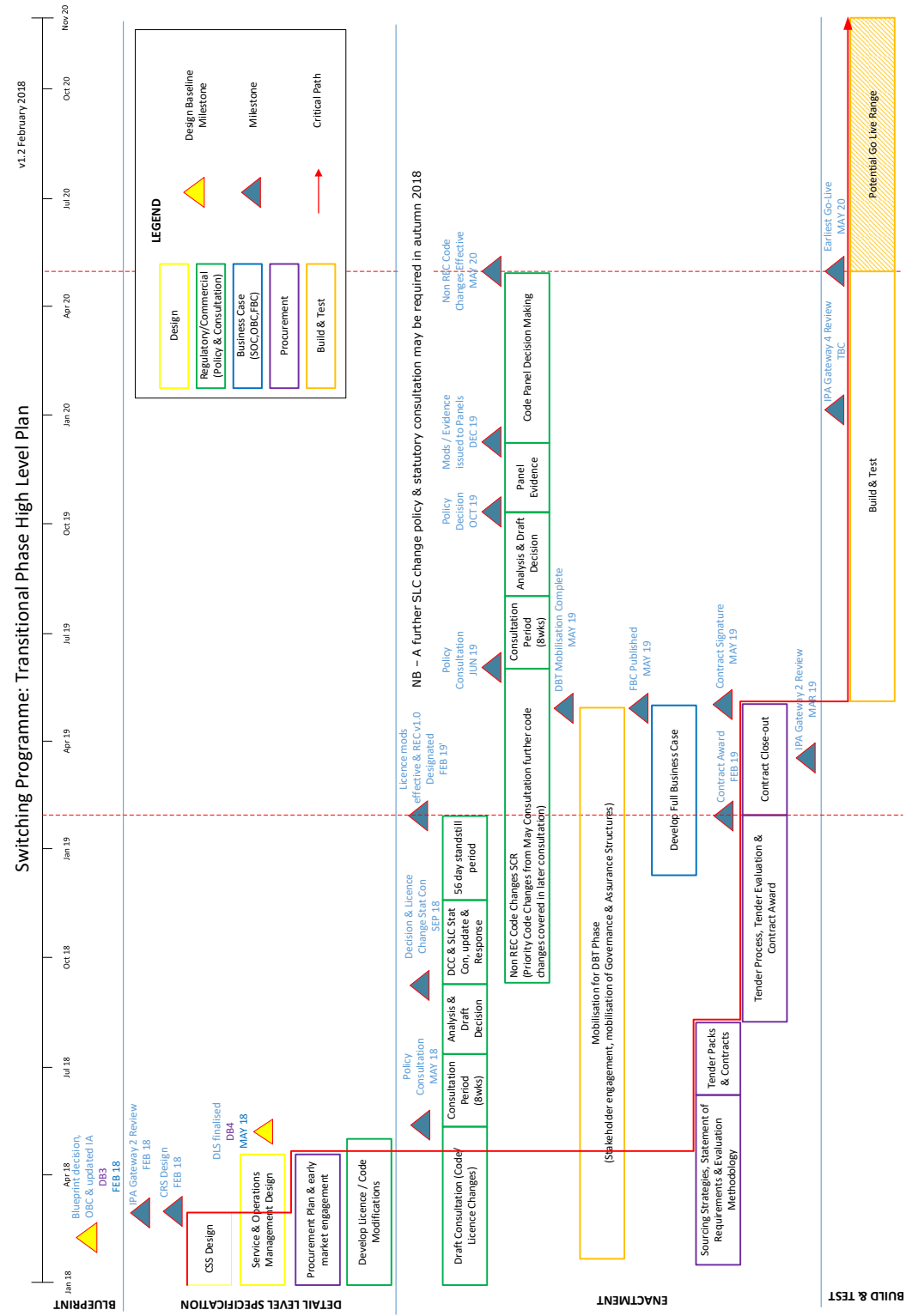
7.11. The current programme plan is included in Figure 16 below. This reflects our current expected timetable up to the end of the Enactment phase of the programme.

7.12. More detailed development of our Enactment phase planning is ongoing and the some details may change. However, we will keep stakeholders informed of changes and publish updates on the programme webpages.

7.13. We do not propose definitive delivery dates for the programme at this point. We are developing a high level “left to right” plan for the DBT phase. This activity builds on the delivery products that were developed during the DLS phase, are summarised in Appendix 4 and are available in full on the Ofgem website. We will ensure that programme participants also have an opportunity to input to this planning work ahead of finalisation of the high level DBT plan. We will continue to challenge the programme timelines to ensure we deliver change as soon as possible.

Figure 16: High level programme plan to end of Enactment phase

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Detailed Level Specification phase management

Phase plan and key milestones

7.14. The programme is currently in the process of finalising the products required to complete the DLS phase of the programme. The DLS phase commenced in April 2017 and ran in parallel with the Blueprint phase. During this phase we have been defining the new switching arrangements and requirements for procurement and code licence changes at a more granular level.

7.15. We expect to close the DLS phase by publishing Design Baseline 4 in May this year. This will be the complete collection of baselined DLS phase products including any updates (via change control) to the products referred to in Appendices 3 and 4 to this Outline Business Case as well as the CSS and Service Management products required to initiate the procurement process.

7.16. The key activities during the remainder of the DLS phase are:

- Publication of baselined end-to-end design products
- Publication of Design Baseline 4
- Completion of an Infrastructure and Projects Authority Gateway Review (scheduled for late February 2018) to provide assurance and indicate readiness to progress to the Enactment phase.

7.17. All programme products that make up the latest Design Baseline will be made available on the Switching Programme webpages. These will be updated as appropriate (via a change control process) and a change log also published.

7.18. The Switching Programme sits outside of the Government Major Projects Portfolio and as a result is not obliged to undertake Infrastructure and Projects Authority assurance or gateway reviews. However, we have voluntarily included these in our assurance plans to provide additional independent assurance on the programme and our readiness for phase transition. The next review is scheduled for the end of February 2018 and is a Gateway 2 review looking at the programme's readiness to move into the enactment phase. We anticipate undertaking further reviews as we transition into the DBT phase and again before go-live to provide further assurance of readiness to proceed.

Roles and responsibilities

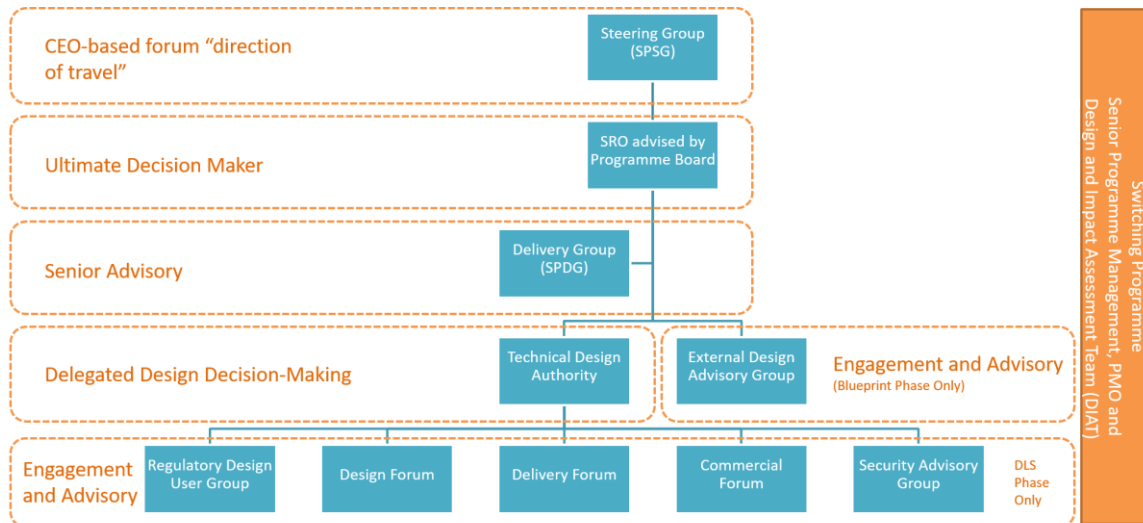
7.19. In our planning for the DLS phase, we allocated responsibility for product development to the most appropriate party, specifying the roles that Ofgem, DCC and industry should play in the delivery of DLS outputs.

7.20. Industry had a continued role throughout the DLS phase in providing input, review and challenge through the range of programme governance and stakeholder engagement forums (TDA, SPDG, Design Forums). This ensures that products have been developed both by the most appropriate party (Ofgem or DCC) and that industry views are taken into consideration.

Governance

7.21. Programme governance in the DLS phase is broadly similar to that of the Blueprint phase. The SRO, advised by Programme Board, SPDG and a range of other stakeholder groups, remains the overall decision-maker. The structure is summarised in Figure 17 below:

Figure 17: DLS phase governance structure



7.22. The DLS phase of the programme saw the creation of a new governance group to support decision-making. The Design Authority (DA), the internal Ofgem group that made Blueprint design decisions was replaced by a new Technical Design Authority (TDA).⁹¹ This change was made to reflect the increased technical detail of the DLS phase as well as the need for more streamlined review and decision processes.

7.23. The TDA, which is chaired by the Ofgem Programme Manager, has external membership with representatives from DCC, energy suppliers and networks on the group. During the DLS phase, TDA has been meeting several times per month, to provide advice to workstreams as well as review and approve products.

7.24. Design and delivery products are only sent to TDA for approval once sufficient stakeholder review has taken place on them and that feedback has been appropriately addressed. Details of decisions made by TDA can be found on our website.⁹²

⁹¹ Details of the TDA including Terms of Reference can be found [here](#) on the Switching Programme webpages.

⁹² <https://www.ofgem.gov.uk/gas/retail-market/forums-seminars-and-working-groups/switching-programme-technical-design-authority>

Stakeholder engagement

7.25. Undertaking effective stakeholder engagement is a key activity for the programme. During the DLS phase engagement is primarily through Design Forums. These have been held regularly as development progresses through the DLS to allow industry stakeholders to input into and comment on the detailed design.

7.26. The External Design Advisory Group (EDAG) which has provided valued input to the development of the Blueprint design continued to meet during the DLS phase. However, the remit of this group was to input into the evolving Blueprint design from the publication of Design Baseline 1 through to the consultation and decision on a preferred reform package and design decision, Design Baseline 3. To support our decision-making, EDAG met four times during 2017 before the group was officially closed following its last meeting in December.

7.27. Stakeholder engagement at senior level continues to take place via a CEO-level steering group which last met in July. Ofgem also facilitated two CEO-level roundtable events on the Energy Switch Guarantee to seek to strengthen the underlying market conditions to support switching.

7.28. The SPDG continued to meet on a bi-monthly basis to ensure that stakeholder views are captured and to inform decision-making. The role of this group will develop, and the frequency of meetings will increase, as we move into the Enactment and DBT phases.

Enactment phase management

Phase plan and key milestones

7.29. The next phase of the programme is the Enactment phase. The key activities during the Enactment phase include the following:

- Development of the REC
- Development of transitional requirements
- Appointment of REC Administrator
- Amendment of the DCC licence
- Amendment of relevant industry licences
- Making code changes under the SCR
- Procurement of CSS Providers and Systems Integrator
- Procurement of Programme Coordinator
- Transition to DBT Phase governance
- Development of technical and contractual arrangements with network providers
- Award of CSS contracts, System Integrator contract, Core Systems Assurance contract
- Finalisation of arrangements with the communication network providers
- Development and signed Memorandum of Understanding between Programme Coordinator, Existing System Providers, System Integrator and CSS Providers
- Mobilisation of programme for commencement of DBT
- Mobilisation of Programme Coordinator

- Mobilisation of System Integrator and CSS component providers
- Mobilisation of programme participants
- Maintenance of design baseline
- Gateway assurance

7.30. During the Enactment phase, a REC will be created to incorporate the new switching arrangements. The REC will be developed with a 'transitional scope' to house the transitional requirements and interim governance arrangements. This version of the REC will be in effect from the start of (or just before) the DBT phase and will be substantively replaced with a revised version, containing all of the relevant 'business as usual' governance at, or around, programme go-live. Further detail on the development of the REC is set out in Chapter 8: Management Case – Regulatory Framework.

7.31. We anticipate that Ofgem will also facilitate, either directly or in conjunction with an interim Transitional REC Board, the procurement of a REC administrator. This procurement will be undertaken through open competition.

7.32. Ofgem has also decided in principle to modify DCC's licence, in order to extend the obligation on DCC to include the management and support of the DBT phase and early years of operation of the CSS. Further information on the amendments to DCC's licence is detailed in paragraphs 8.10. – 8.19. The work undertaken in the DLS phase regarding the consultation on the amendment to DCC's licence would feed into an initial policy consultation on the terms of the amended licence condition in early summer 2018. Taking into consideration the feedback from this consultation, we will publish a statutory consultation on proposed licence modifications in autumn 2018.

7.33. Ofgem anticipates running the consultation on DCC's licence modifications in parallel with the consultation on the amendment to industry licences to reflect the links between these processes. This should allow for the licence modifications to be in place by the end of 2018 and well ahead of planned contract award in February 2019 and contract signature in May 2019. Further information on the proposed amendments to industry licences is detailed in Chapter 8: Management Case – Regulatory Framework.

7.34. Within the Enactment phase, Ofgem will engage with the industry on the proposed content of the modifications to existing codes that are to be raised under the SCR (with the final modifications themselves being issued to the relevant Code Panels during DBT).

7.35. The DCC will undertake the procurement of the CSS during the Enactment phase. It is anticipated that tender packs will be issued in August 2018 with contract award recommendations being made for February 2019 and contract signature in May 2019. This is further detailed in paragraph 5.2.

Roles and responsibilities

7.36. The Enactment phase is primarily tasked with three key workstreams:

- Procurement processes;
- Development of regulatory framework and requirements; and
- Mobilisation for the DBT phase, including maintenance of the design baseline.

7.37. In order to support the final stages of the Enactment phase, and the DBT phase of programme, a number of roles have been identified. It is Ofgem's current intention that both the DCC and Ofgem will procure between them the system integrator, co-ordination and assurance roles which are detailed in paragraphs 7.60 and following.

7.38. During the Enactment phase, DCC will be responsible for the procurement of the CSS Providers, the System Integrator and the Core Systems Assurance Provider. Further, DCC will be responsible for the mobilisation for the commencement of the DBT phase, of the following parties:

- DCC Switching Team
- DCC DSP Team
- System Integrator
- Core Systems Assurance Provider
- CSS Provider(s)

7.39. Ofgem will be responsible for the procurement of the Programme Coordinator and the Licenced Party Assurance Provider. It is intended that the contract for these parties should be awarded in time to assist Ofgem with the mobilisation of the programme stakeholders for the entry to the DBT phase. Ofgem's current intention is that the funding for these roles will be sourced from licenced parties, however the mechanism for this funding is still under consideration.

7.40. Ofgem is responsible for the development of the REC and the associated regulatory framework. This will be produced with assistance from industry parties and Code Administration bodies. Ofgem is also responsible for the development of a high level Design, Build and Test Plan during the Enactment phase of the programme. This high-level plan will be used by the Programme Coordinator to develop a detailed delivery plan in the later stages of the Enactment phase, and after the procurement of the Programme Coordinator.

7.41. A range of stakeholders will help develop the REC and associated regulatory material. These parties will be responsible for engaging through the Regulatory Group and the relevant working groups to support the development of the REC and the associated Performance Assurance regime.

7.42. The following parties will also need to ensure that their organisations are ready to commence the DBT phase. This will include having sourced appropriate support (such as IT testing support and Programme Management support) to ensure that they can meet the key milestones in the programme:



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- Licensed parties such as suppliers, shippers, GTs and independent GTs, Distributed Network Operators and independent Distributed Network Operators.
- Xoserve
- St Clements
- MRASCo
- Registration Data Providers (RDPs)
- Communication network provider(s)

Governance

7.43. The governance requirements for the programme are different for the different phases. During the Enactment phase, governance will undergo a staged transition towards the proposed DBT phase governance structure. The intention is that the higher-level decision making bodies, such as the SRO, advised by Programme Board and the SPDG will continue, with a membership and Terms of Reference refresh. However, at a lower level there will be a gradual shift towards DBT thematic based groups. The proposed governance structure and the staged transition for Enactment are set out in Figures 18 and 19 below.

Figure 18: Governance transition from existing governance to Enactment phase governance

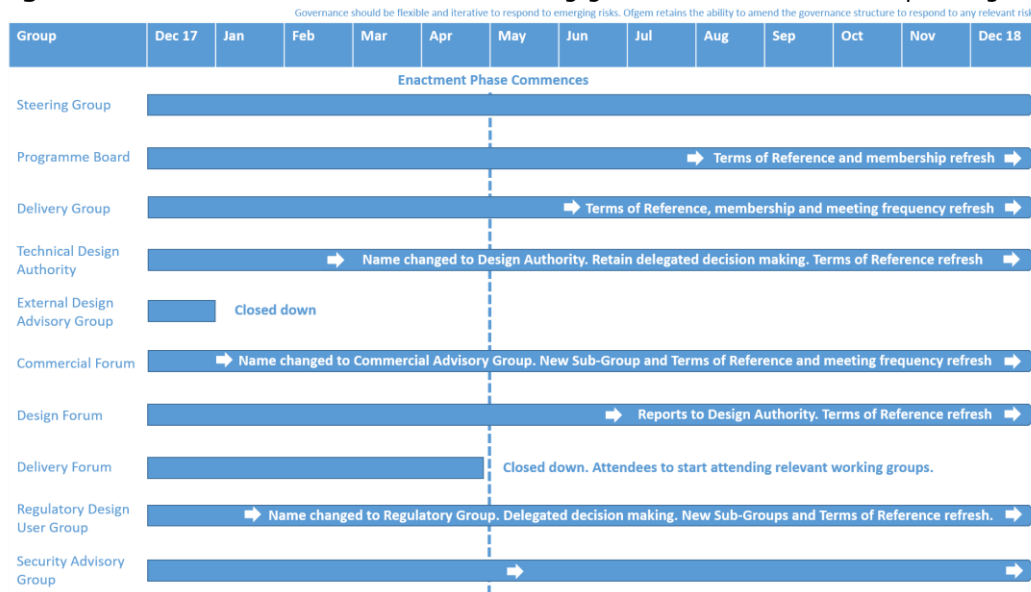
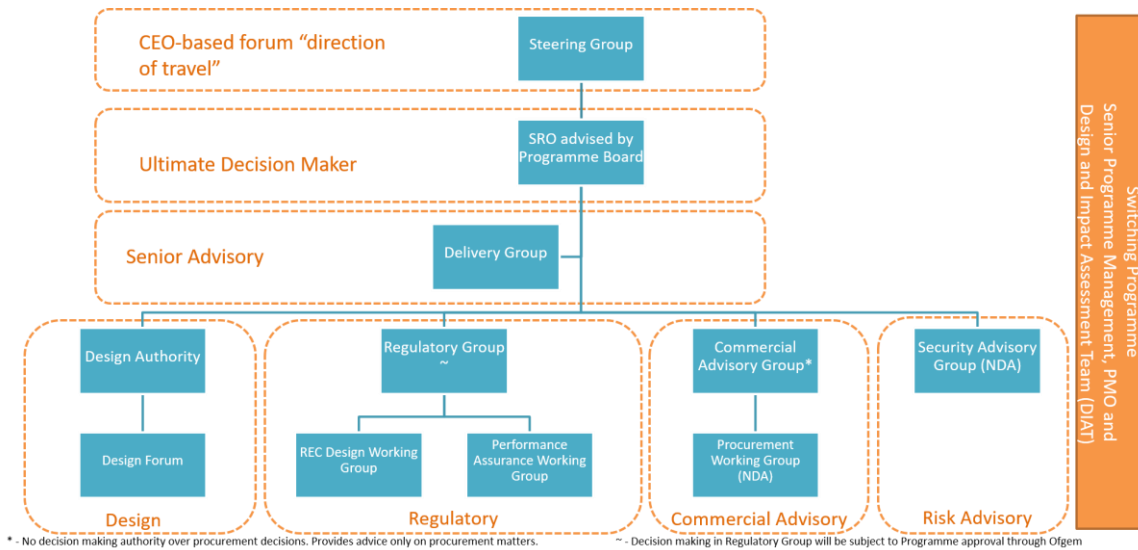


Figure 19: Proposed Enactment governance structure



Stakeholder engagement

7.44. The engagement of stakeholders during the Enactment phase centres around three primary activities:

- Regulatory framework consultation;
- Procurement activities;
- Mobilisation for DBT phase, including but not limited to pre-CSS data migration and associated activities, in-depth design engagement, maintenance of the design baseline, standing up industry project teams and assurance activities to confirm that the programme is capable of entering the next programme phase.

7.45. As the Programme Sponsor, Ofgem holds the responsibility for undertaking whole of programme engagement, ensuring that all participants are appropriately consulted and that the governance structure and representative models reflect the needs of stakeholders.

7.46. The DCC retains responsibility for stakeholder and market engagement on the procurement of the CSS services, the System Integrator and the Core Systems Assurance provider.

Design, Build and Test Phase Management

Phase plan and key milestones

7.47. The DBT phase of the programme will commence with the successful fulfilment of Entry Criteria for the phase. The DBT entry criteria will be finalised and

consulted upon in the Enactment phase of the Programme, but will include contract signature on CSS service provider contracts. During this phase, all participants will need to assemble and test the components that will form and interact with the CSS. These participants will include licensed parties, such as suppliers, and providers of core data services (i.e. UK Link and MPRS, DES and ECOES, DSP and the CSS itself).

7.48. How different parties will be impacted within the DBT phase will depend on the procured solution, and as a result, we have not completed a detailed plan for the design, build and test activity at this stage. However, we are developing a high-level “left to right” plan for the DBT phase, building on the delivery products that were developed during the DLS phase. We will ensure that programme participants also have an opportunity to input to this planning work ahead of finalisation of this high level DBT plan. It is anticipated that a detailed level plan will be produced in the months between System Integrator and Programme Coordinator contract award and the commencement of the DBT phase. With this in mind, we have produced a range of products that set out our current expectation for activity that will be required during the DBT phase, identifying affected parties. We consider that this information will be sufficient to allow all stakeholders to perform an initial assessment of the resources that they will require to participate in the new switching arrangements.

7.49. These products consider two types of activity occurring within the DBT phase, below.

7.50. *Design and Build, Testing and Integration activity:* All participants who expect to interact with the retail energy market will need to develop and test some functions to enable them to use the new arrangements. The nature and extent of this activity will vary across participants but is likely to include:

- Design and build of system components (including interfaces for non-CSS participants);
- Testing (including Pre-Integration Testing, System Integration Testing, User Integration Testing and End to End Testing);
- CSS and Core Systems Integration (oversight of integration of core systems with the CSS); and
- Coordination of other market participants in readiness for go-live.

7.51. *Transition, Data Improvement and Data Migration activity:* Activity undertaken during the DBT phase will not be limited to the design, building and testing of new components and interfaces for the new switching system. To ensure that the new switching arrangements are ready for ‘go-live’, and to minimise implementation risk, we have proposed a staged transition approach in which the built and tested components (as outlined above) are assembled in a series of co-ordinated stages overseen by the System Integration and Programme Coordinator function. All parties will be involved to a greater or lesser extent in this staged transition to the new arrangements. Core systems providers will participate in the migration of data from their systems to the new CSS, and interfaces with other market participants (such as suppliers) will be established in an ordered fashion.

7.52. Each transition stage will have clearly defined entry and exit criteria, and will be managed through DBT phase governance, with the SRO being ultimately responsible for the decision to move to the next transition stage.

7.53. Activity that will take place during the staged transition will include:

- Incorporation of a new address data source into the CSS, and reconciliation of existing gas and electricity address data to create a new Retail Energy Location (REL) within the CSS;
- Assembly of interfaces between the CSS and core systems;
- Transformation, loading and migration of data in existing core systems;
- Loading and migration of data into the CSS from core systems;
- Definition of Go/No-Go criteria for transition stages, customer go-live and transition from a Post-Implementation period to a 'Steady State', using a mechanism for gateway assurance which will be developed ahead of the DBT phase.

7.54. This staged transition will lead to customer go-live of the CSS, followed by a further post-implementation phase where an enhanced level of support will be provided to ease early life issues.

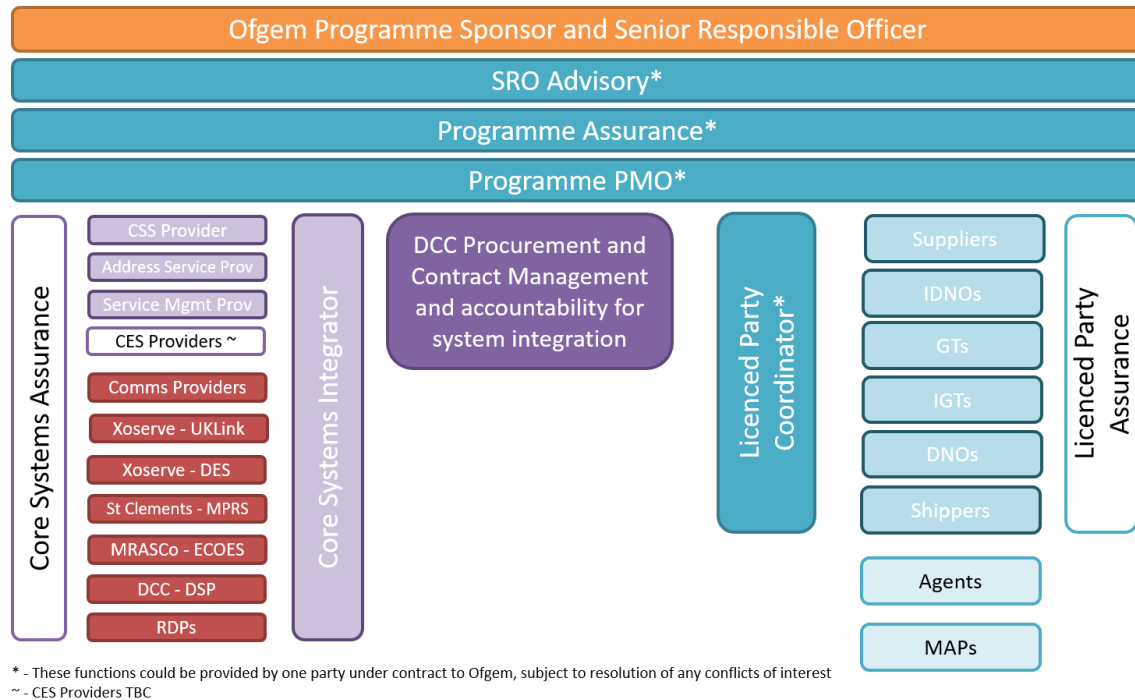
7.55. Our current expectations for Design and Build, Testing and Integration activities at this stage are covered by the E2E Design and Build Plan, E2E Testing Plan and E2E Integration Plan products, and our expectations for Transition, Data Improvement and Data Migration activity are addressed in the E2E Transition, E2E Data Migration and Data Improvement: Address Database Remedy products. Links to these products can be found in Appendix 4.

7.56. These products reflect our current view of our delivery approach. We expect that more detail will be added as the design of the switching solution is refined and as providers are procured. The level of detail in these documents reflects the need not to be too prescriptive in our delivery approach in order to ensure that we are able to procure the most suitable solution for switching. However, we consider that these products contain an appropriate level of detail for stakeholders to make initial plans for their own delivery needs in the DBT phase.

Roles and responsibilities

7.57. The proposed roles and responsibilities for the DBT phase of the programme are below. We will continue to work with stakeholders in the coming months on refining the detail underpinning these roles.

Figure 20: DBT roles and responsibilities



7.58. The following section outlines the proposed roles and responsibilities for parties involved in the DBT phase of the Switching Programme. At a high level, the following parties will be directly involved in the Switching Programme:

- Ofgem
- DCC Switching Programme
- Programme Coordinator and Programme Assurance Provider
- System Integrator
- CSS component providers
- Licensed parties such as suppliers, shippers, GTs and independent Gas Transporters, DNOs and IDNOs.
- Xoserve
- St Clements on behalf of DNOs and IDNOs as MPRS providers (or any other Meter Point Administration Service (MPAS) provider that is an agent of the DNOs or IDNOs)
- MRASCo
- DCC DSP
- RDPs
- Core Systems Assurance Provider
- Licensed Party Assurance Provider

7.59. Ofgem will continue to be the Programme Sponsor and ultimate decision maker. The decision-making authority sits with the SRO for the programme within Ofgem. We believe that Ofgem is best placed to make decisions in the best interests of consumers, balancing the risk of an ineffective delivery and unnecessary delays to go-live of the programme.

7.60. We intend to include in DCC's licence, the responsibility to provide for a CSS System Integrator and Core Systems Assurance contract management role during the DBT and post-implementation phases of the programme. Further detail on the amendments to the DCC's licence is set out in Chapter 8: Management Case – Regulatory Framework.

7.61. Ofgem, on behalf of the programme, intends to procure an organisation to provide the joint Programme Coordinator and Programme Assurance functions. The purpose of the Programme Coordinator is to coordinate the interactions across the programme stakeholders to assist in timely delivery of the programme, and provide assurance over the delivery of the programme. This includes a number of responsibilities, such as providing a Programme Management Office, providing secretariat support for the programme governance and expertise on the delivery of large-scale industry IT change programmes.

7.62. The delivery of RP2a requires the integration of a number of components within the CSS as well as with existing industry systems such as UK Link, MPRS, ECOES, DES and DSP. We believe that the best way to ensure that these systems are appropriately integrated, in accordance with the design of RP2a, is to have one party responsible for coordination. Our current intention is that the DCC should procure a System Integrator, because it is best suited to that role. We do not believe that Ofgem can effectively procure a Systems Integrator, as this is outside our skills and expertise. However, we recognise that a System Integrator, with responsibilities for integration across CSS service providers and existing system providers, cannot be accountable solely to DCC. From a programme perspective, the System Integrator will report to the Programme Coordinator and, where appropriate, decisions that require escalation will be taken by Ofgem, advised by the Programme Coordinator. This arrangement should ensure that the System Integrator remains appropriately independent of any single party involved in the implementation of the programme.

7.63. Through the procurement process, the DCC will procure one, or a number of, CSS component providers. These parties will be responsible for the delivery of their various components of the CSS. These parties will report into the System Integrator on a day-to-day basis, with contractual accountability to the DCC.

7.64. A key aspect of the delivery of a successful implementation of the CSS is industry participants' ability to interact with the new system. One of the key lessons from Project Nexus was that there were insufficient regulatory powers to compel market participants to work together to achieve go-live. We intend to introduce transitional requirements on relevant licenced parties to participate in the Switching Programme and to use all reasonable endeavours to deliver to the programme timeframes.

7.65. Xoserve is the CDSP for the existing gas switching and settlement system contained within the UK Link system. One of the fundamental requirements of RP2a is that the CSS will contain the switching functionality currently residing in UK Link. Xoserve will be a fundamental part of the delivery programme. Whilst Xoserve is not itself a licensee, the GTs retain responsibility under their licence for the gas registration systems. It is therefore our intention to modify the gas transportation licence in order to require their accession to and compliance with the REC, which will

govern certain transitional activities including adherence with RP2a. At this stage we consider that compliance with the REC should be sufficient, though if appropriate we will also consider more direct and explicit obligations within the gas transporters licence.

7.66. St Clements is currently the only provider for the existing electricity switching and registration service MPAS, which is known as MPRS. One of the fundamental requirements of RP2a is that the CSS will contain the switching functionality currently residing in MPAS. As such, St Clements will be a fundamental part of the delivery programme. As with Xoserve's role in gas registration systems, St Clements is used to discharge the electricity distribution network operators responsibilities with respect to registration systems. Therefore, whilst St Clements is not itself subject to regulation we will seek to ensure the consistent and timely adherence to programme requirements by requiring the DNOs and IDNOs to accede to and comply with the REC. We will again retain the option of placing explicit obligations in the electricity distribution licence if this proves necessary.

7.67. Whilst it will be for the relevant licensees to determine how to discharge these modified conditions, the apparent and practicable route would be to back them off through their existing agents, i.e. Xoserve and St Clements respectively, and ensure that they are appropriately engaged in the Programme.

7.68. MRASCo is the administrator of the MRA, and as ECOES is governed under the MRA, it is the body responsible for managing change to ECOES. Ofgem's current intention is to use the SCR to modify the MRA, either to remove or incorporate by reference any provisions that are to be contained in the REC. To the extent that ECOES provisions remain in the MRA, we may also as part of the SCR reflect the enduring ECOES requirements that are required in accordance with RP2a. It is also likely that there will be transitional requirements for participation from the IT service providers contracted by MRASCo to participate in design and testing phases of the programme; the current intention is to set these out in a transitional scope REC. Further detail on the transitional scope REC and on the SCR is in Chapter 8: Management Case – Regulatory Framework.

7.69. Currently DNOs and independent DNOs (IDNOs) provide or procure provision of registration data to the DSP to drive billing and access control to the smart meters. Under the new switching arrangements, CSS will be responsible for providing the registration data that DSP requires for smart meter access control and for billing. Our intention is to modify the DNO and GT licences such that they are no longer obliged to provide registration data. The removal of this requirement from the current registration data providers will require participation in the programme's testing, and it will be the responsibility of these parties to ensure that this aspect of their systems is appropriately tested.

7.70. In order to ensure that the various system providers (both existing and new) are progressing in accordance with best practice and in line with the programme plan milestones, we believe that there is a need for an independent assurance function. The DCC should procure and manage this assurance party on behalf of the programme. This assurance partner has been termed the Core Systems Assurance Provider. While the DCC will contractually manage the Core Systems Assurance Provider, the party will have reporting obligations through to programme governance



and Ofgem to ensure that the assurance material prepared is transparent across the programme parties.

7.71. Further to this, Ofgem believes that there is a similar need for independent assurance of industry participants' readiness. This assurance partner has been termed the Licenced Party Assurance Provider. We believe that Ofgem should procure and manage the Licenced Party Assurance Provider, with funding provided from licenced parties. However, we are interested in exploring alternative options with respect to the procurement of the party, such as through the existing code bodies. We intend to discuss this further with industry in the coming months.

Governance

7.72. During the DBT phase and for a period after go-live, Ofgem as Programme Sponsor will retain the ultimate decision-making authority, which will sit with Ofgem's SRO.

7.73. We expect to implement a governance model to inform our decision-making, particularly with respect to go-live. The later part of the Enactment phase is being run concurrently with the commencement of DBT, but we will look to move to DBT governance structures at, or ahead of, entry into DBT, meaning that we will stand-up relevant DBT governance structures in the Enactment phase to de-risk the early days of the DBT phase. The governance model set out here is early stage thinking and we will ensure that all relevant stakeholders have an opportunity to comment on the model before firm decisions are taken.

Figure 21: Governance transition from Enactment phase governance to DBT governance

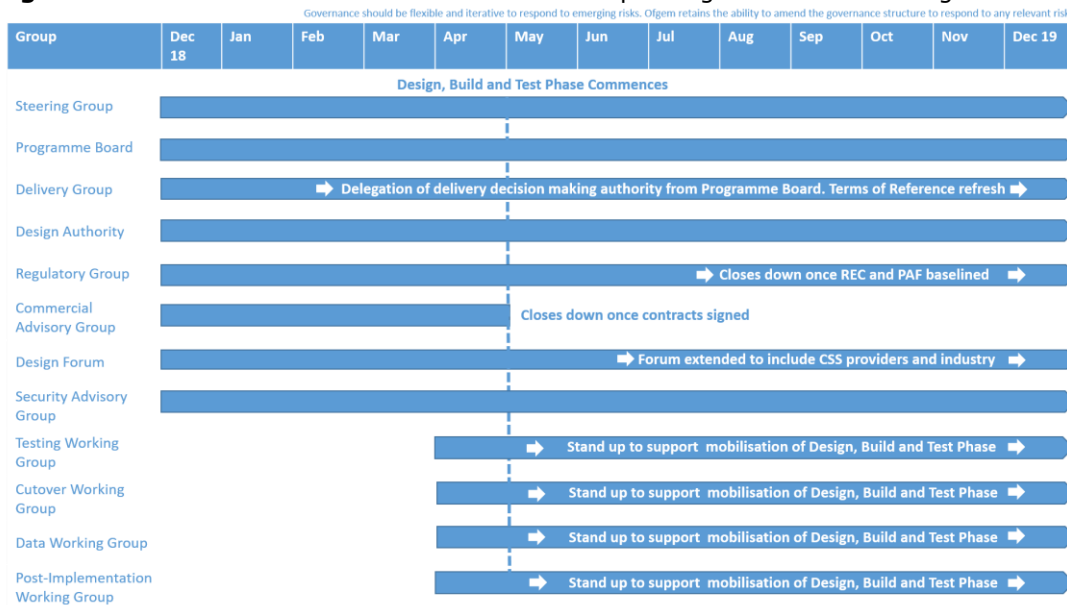
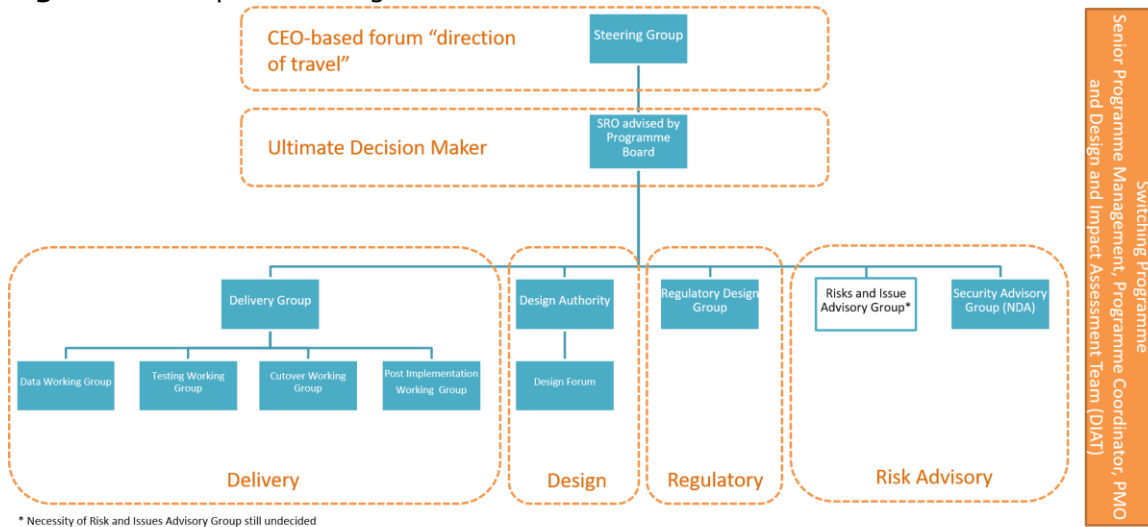


Figure 22: Proposed DBT governance structure



Stakeholder engagement

7.74. The engagement of stakeholders during the DBT phase centres around four key workstreams:

- **Delivery:** including but not limited to data activities, testing activities, cutover preparation activities and post-implementation preparation activities;
- **Design:** ongoing design change requests and design clarifications;
- **Regulatory:** ongoing regulatory change requests and refinement of the REC and Performance Assurance framework; and
- **Risk Advisory:** including assessment of whole of programme risk management engagement and security engagement (where appropriate).

7.75. As the Programme Sponsor, Ofgem holds the responsibility for undertaking whole of programme engagement, and as the ultimate decision-maker will be responsible for arbitrating escalated disputes. Ofgem is also responsible for engagement with stakeholders who are not directly involved in the delivery of the programme, such as consumer bodies and relevant government representatives.

7.76. The Programme Coordinator will be responsible for day-to-day engagement with programme participants. This includes the communication of relevant programme governance material and the escalation of material issues to Ofgem for final decision. The Programme Coordinator will also be the first point of contact on programme matters for new stakeholders (via the Programme Management Office), and will be responsible for directing queries and issues through to the relevant party.

7.77. The DCC retains responsibility for managing contractual issue resolution between the CSS providers, the System Integrator and the Core Systems Assurance provider.

7.78. The System Integrator is responsible for the day-to-day engagement with the existing system providers and the CSS providers, and ensuring that the Programme Coordinator is kept up to date with the progress of these parties.

7.79. Suppliers continue to be responsible for communicating with their customers and making sure that any relevant programme information is communicated through to consumers.

Post-Implementation Phase Management

Phase plan and key milestones

7.80. The final phase of the programme is the Post-Implementation phase. As this is the final stage of the programme, the detail underpinning the management of this phase is less developed. As detailed above, one of the activities of the DBT phase is to develop further the detail on the close down of the Switching Programme and the successful transition to a stable switching environment.

7.81. The key activities during the Post-Implementation phase are:

- Management of early CSS system life issues: Specific early-life issues cannot be predicted ahead of go-live. However, it is reasonable to assume some issues will occur in the initial stages of a project of this complexity. To address these, we expect that all parties (including the CSS Providers) should plan for the post-implementation period to ensure that appropriate resources are retained for a period after go-live. These resources are likely to comprise those employed by participants during the DBT phase, and will be used within an agreed governance structure for issue and defect resolution in early life and transition to enduring governance in line with an agreed plan once exit criteria are met. Criteria for transition to business-as-usual operation will be determined in advance of go-live. Early life issues will include prioritising and resolving unforeseen defects identified following go-live and implementing improvements and resolving issues carried over from the DBT phase but not deemed critical enough to delay launch.
- Data fallout management: Another key activity in the initial period after go-live will be the resolution of any issues (predominately data driven) that occur during the cutover from the old system to the new system. The ability to resolve these issues quickly in the initial days of go-live will be critical, so as not to cause a backlog of incidents.
- Stabilisation of CSS: As the programme moves out of the initial early-life of the system, there will be ongoing work to stabilise the system. This will require ongoing monitoring and active engagement from the system providers and industry, and is also a consideration in Ofgem's exit as Programme Sponsor, as well as the closure of the programme.
- Governance transition to enduring governance structure: As the system begins to stabilise, there will be a concurrent smooth transition in the programme governance managed by Ofgem as Programme Sponsor, to the enduring regulatory framework set out under the REC and managed by the REC Panel. Ofgem's current intention is that this transition should be risk-

- based and assessed against criteria to assess whether the system is meeting the needs of users and consumers.
- Ofgem programme sponsor exit decision: Ofgem will be looking to take a controlled decision to exit as Programme Sponsor in the Post-Implementation phase. Ofgem's current intention is that the exit decision will have a target date, but will be controlled by exit criteria. The decision of Ofgem to exit as Programme Sponsor will not be linked to the decision to close the Programme.
 - Close of programme: The decision to end the Programme and move to business as usual, will need to be taken in the Post-Implementation phase. It will also mark the end of this phase of the Programme. The decision to exit the Programme should be risk-based and controlled by exit criteria.

Roles and responsibilities

7.82. The proposed roles and responsibilities for the Post-Implementation phase of the programme are below. We will continue to work with stakeholders over the Enactment phase and the DBT phase to refine the detail underpinning these roles.

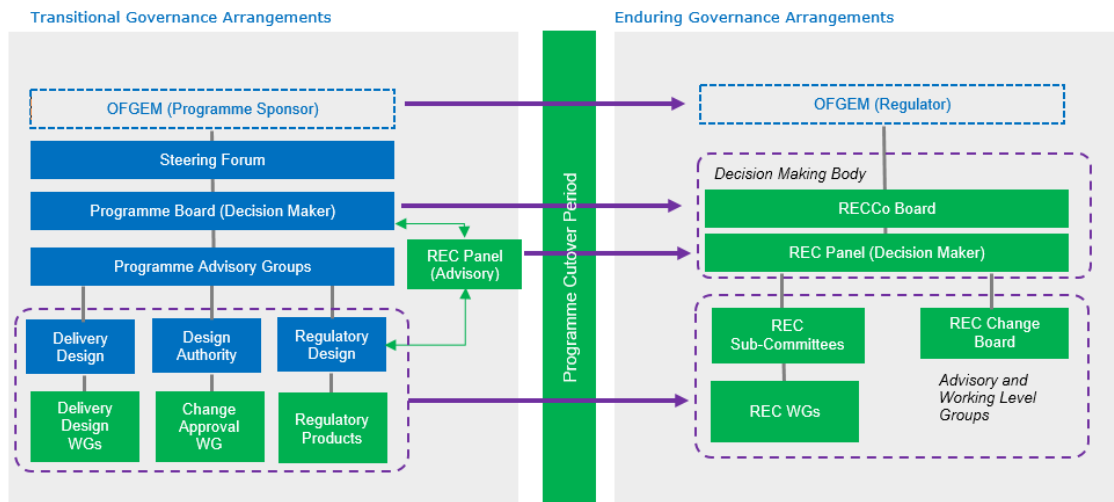
7.83. In the initial days of the Post-Implementation phase of the programme, there will be minimal changes to the roles and responsibilities of the programme participants. Ofgem will seek to minimise the amount of change in this period, to ensure that focus and resourcing can be dedicated to the quick resolution of any operational issues that emerge in the early stages of the life of the CSS system.

Governance

7.84. As detailed above, the governance framework will look to transition from Programme governance to enduring governance, as set out under the REC. This will see Ofgem relinquish our role as Programme Sponsor, and continue our role as the Regulator of the energy market.

7.85. The diagram below sets out the initial thinking for the governance transition. Further detail will be developed during the Enactment and the DBT phases, as the REC is developed and the REC Panel is stood up.

Figure 23: Programme governance transition to proposed enduring governance



Stakeholder Engagement

7.86. The engagement of stakeholders during the Post-Implementation phase centres around three key workstreams:

- Stabilisation of the system
- Transition to business as usual operational model
- Ofgem exit and programme closure

7.87. As the Programme Sponsor, Ofgem holds the responsibility for undertaking whole of programme engagement, and this includes any programme communications with stakeholders not directly engaged in the programme, such as consumers and consumer bodies.

7.88. Suppliers will continue to be responsible for engaging with their customers who are switching or attempting to switch.

8. Management Case – Regulatory Framework

Chapter summary

This chapter looks at key aspects of the regulatory framework that will be utilised to achieve the outcomes of the programme, including the extension of the DCC licence. This chapter covers our decisions following the September consultation and builds on what we said in the Strategic Outline Case.

The new dual fuel REC will be created to govern the CSS and wider switching and registrations arrangements. The REC will also be used to govern the transitional arrangements necessary to facilitate the successful delivery of the programme.

The creation of the REC will be accompanied by consequential changes to existing codes and these will be pursued as part of the SCR process. We will review the SCR launch statement and adopt an Ofgem led end-to-end SCR where Ofgem will lead the consultation and engagement necessary to develop the appropriate code changes.

There will be an interim governance model for delivery and operation of the CSS. We have decided, in principle, to modify the Smart Meter Communications Licence to extend DCC's role to manage the contract and delivery of the CSS during the DBT phase and early years of operation.

There will be further consultation on the detail of the regulatory framework in early summer. Our high level regulatory timeline remains as outlined in the September consultation. As our thinking develops further, and our proposals become more granular, we will re-evaluate the timeline.

Development of the Retail Energy Code

8.1. Further to the proposals set out in our September consultation and the strong support received, we will proceed with the establishment of a Retail Energy Code (REC) to incorporate the new switching arrangements. Whilst primarily focused on providing governance for the new CSS arrangements, this is also an opportunity to consolidate some of the currently fragmented single fuel governance framework into a more efficient and coherent dual fuel arrangement. In doing so, we will also have regard to the governance issues highlighted as part of the CMA energy market investigation and subsequent initiatives to address them.

8.2. Whilst our longer term aim is to reduce the number of codes that market participants are expected to have knowledge of, and where relevant comply with, we acknowledge that in creating the REC we are at least temporarily increasing that number. However, we expect this to be a short term situation facilitating the transitional requirements of the programme, until such time as a rationalisation of retail governance can be achieved. We would expect to revise any aspects of retail

governance that are within scope of the switching programme as part of the SCR process, and Ofgem will continue to work with relevant code bodies and utilise normal code modification procedures for any aspects that are outwith the programme. In due course we would expect much if not all of the current SPAA and MRA provisions to be replaced by the REC, or other existing codes if they are considered to be more suitable. We consider that this will be both administratively efficient and reduce parties' costs of compliance.

8.3. In developing the REC, we will continue to utilise industry expertise and knowledge in our design teams and forums. We will consider how best to draft the REC, learning lessons from elsewhere and aspiring to create a 'best of breed' that is both efficient and suitably agile to accommodate future requirements.

REC Scope

8.4. The REC will be developed with a 'transitional scope' setting out what is expected of relevant parties in order to facilitate the effective and timely implementation of the programme. We expect that this initial version of the REC will be in effect from the start of (or just before) DBT and will be superseded by a revised version of the REC which will be designated at programme go-live. The REC in place at the programme go-live date will then have an 'initial scope'.

8.5. The version of the initial scope presented in the September consultation paper was a work in progress and we will consider all of the comments received as we continue to work through detailed proposals. These proposals will be tested with our regulatory group of industry representatives, before being subject to wider industry consultation in the early summer.⁹³ Although the detail is still being worked through, we believe that the initial scope will fall somewhere between the two extremes that have been suggested, ie it is unlikely that SPAA and MRA would be able to be completely removed within the timescales of the programme, but we do not believe it would be efficient to restrict the initial scope to focus on the critical CSS elements and REC governance arrangements.

8.6. We believe that further development of the REC beyond the switching programme will result in a REC with a 'full scope'. Consideration will be given to the development of the REC beyond its initial scope and how the 'full scope' of the REC could be achieved by industry parties in accordance with industry processes outside of the Switching Programme. We will work with the regulatory group to produce a more detailed proposal around our vision of the 'full scope' of the REC.

REC Ownership and funding

8.7. As with the other industry codes, the responsibility for the ongoing ownership and maintenance of the REC will be set out in licence. We continue to consider that the gas and electricity suppliers remain the appropriate category of licensee to take primary responsibility for the REC, given its focus of retail activities, though we will also

⁹³ Currently planned for May 18.

obligate other relevant licensees to accede and comply. This will include the gas and electricity network operators, as well as DCC to the extent it retains responsibility for the CSS.

8.8. We consider that as far as practicable both the administrative costs of the REC and any activities governed by it should be directly funded by the suppliers themselves. However, we acknowledge that in some cases the activities to be governed in the REC are currently funded through other mechanisms, consistent with prevailing obligations. We will therefore give further consideration to both transitional and enduring funding arrangements and set out our proposals for these as part of our wider industry consultation in the early summer.

Regulatory framework and requirements

8.9. In this section we describe our proposals to amend the regulatory framework and put in place requirements on market participants to deliver and operate the proposed new switching arrangements for RP2a.

DCC licence requirements

8.10. Licence Condition 15 (Incorporation of the Centralised Registration Service) of the Smart Meter Communication Licence places an interim objective and requirements on the DCC as the licensee, to contribute to the development, documentation and procurement of the service capability to deliver a CSS. Currently, this condition only covers the period up to the contract award of the relevant service capability to deliver and operate a CSS. It is anticipated that there will be a continued need within the programme for a body to oversee the delivery and performance of the CSS during DBT and early years of operation.

8.11. We have learnt from previous industry programmes, including the Smart Meter Implementation Programme, that having different bodies to procure and manage potential service providers is not ideal. DCC will design and negotiate the contracts that the selected service providers will enter into and this would include any provision of incentives / penalties to help ensure successful delivery. This leaves DCC well placed to continue to manage these contracts and provide continuity as the programme transitions into the DBT phase and early years of operation. We believe that this should help mitigate some of the challenges that could be experienced during the bedding in of the system and resolution of bugs.

8.12. We sought views in the September consultation on the extension of DCC's licence to cover DBT and early years of operation of the CSS. Taking account of responses we commissioned Baringa Partners, who provide independent assurance to Ofgem within the programme, to carry out a high level capability review of DCC to ensure that DCC had both the capacity and capability to undertake these roles. That review did not identify any fundamental issues that would prevent DCC being capable of procuring, delivering and operating the CSS. The review suggested a number of improvements and risk mitigations that should be put in place covering their current role in procurement and development of the DBT and operational roles, and an action plan to address all of these has been agreed with DCC.

8.13. In the light of that review, consultation responses, and our view that DCC is best placed to oversee the development of the CSS and be responsible for the provision of the new switching service in the early years of its operation, we have decided, in principle, to extend DCC's licence to require them to undertake these activities.

8.14. This will require changes to the Smart Meter Communication Licence to clarify DCC's role following contract award and to help ensure that an appropriate implementation performance regime is in place for the CSS post contract award. This would likely include:

- an explicit role for DCC to manage the contract and delivery of the CSS during the design, build and test phase and early years of operation of the system in accordance with agreed implementation performance and reporting regime;
- a general obligation to contribute and support the delivery and operations of an efficient, economic and secure CSS, including procurement of a core systems system integrator and core system assurance;
- continued application of licence condition 15.4 to ensure that DCC's ongoing smart metering activities are prioritised if constraints between smart metering and switching arise; and
- further amendments to clarify existing terms in relation to switching, including CRS and Fundamental Registration Service Capability.⁹⁴

8.15. DCC's role would be in the context set out in chapter 7, with Ofgem remaining the overall programme sponsor and design authority, with implementation supported by independent coordination, assurance and integration functions.

8.16. These obligations will be underpinned by a price control framework that would include financial incentives / sanctions (outlined above in paragraph 6.26 and following). This regime should be structured to encourage behaviours in line with the principles of the programme and mitigate delivery failures by any party. This framework will be particularly important in this phase of the programme as all participants will be working to a common timetable and are consequently dependent on other contributors to meet deliverables.

8.17. This governance model for the delivery and operation for the CSS will be open to review as to whether it remains the correct model. One opportunity for review would be the end of DCC's current licence term (September 2025). This would be an appropriate time to consider whether provision of the CSS should form part of the re-tendered licence or whether it would sit better elsewhere, for example with the REC.

⁹⁴ As outlined in section 1.5.12. Fundamental Registration Service Capability as defined within DCC's licence sets out the procurement process to be followed, contractual terms, eligible bidders and how the associated costs to DCC are classified

Next steps

8.18. We will further develop our thinking on this with input from across the programme. This will include:

- outlining high-level requirements for DCC during the DBT phase and initial live operations
- initial draft licence modifications
- rationale and proposals for the price control framework
- work to develop robust and objective entry and exit criteria for DBT and entry criteria for early life support and enduring operations.

8.19. This would feed into an initial policy consultation in early summer 2018. Taking into consideration the feedback from this consultation, we will then hold the statutory consultation on proposed licence modifications in autumn 2018. We anticipate that this will run in parallel with consultation on the REC and other regulatory changes to reflect the links between these issues. This should allow for the licence modifications to be in place by the end of 2018 and well ahead of planned contact award in February 2019 and contract signature in May 2019.

Transitional regulatory requirements

8.20. Industry participants need to fully cooperate with all relevant aspects of the programme before, during and after the DBT phase in order to ensure that they are ready to interact with the CSS when it goes live; this is a prerequisite for the successful implementation of the new switching arrangements. Regulatory underpinning of transitional requirements will ensure that activities are undertaken as scheduled, and issues are resolved when they arise.

8.21. We are using lessons learned from Project Nexus to help shape our approach to the delivery of the programme, in particular the shape of governance and assurance. As Project Nexus was an industry project, it did not operate with formal regulatory underpinning and Ofgem's decision to takeover programme sponsorship was made in the interest of protecting consumers. One of the key lessons from Project Nexus was that there were insufficient regulatory powers to compel market participants to work together to achieve go-live. Towards the end of Project Nexus there was a large amount of goodwill between programme parties, but this is not a guaranteed outcome. So while Ofgem recognises the need for a central coordination party within the programme as well as independent assurance, these parties are not seen as a replacement for the need for regulatory requirements such as licence conditions, but rather as complementary mechanisms to minimise risk to the programme and ultimately consumers.

8.22. To this end, transitional requirements will be placed on relevant market participants in the transitional version 1.0 of the REC. We expect this will cover gas and electricity suppliers, network operators and DCC, coming into effect in advance of the DBT phase of the programme. Adherence to these transitional requirements will be underpinned by licence where appropriate. In particular we will continue to have regulatory oversight of the DCC and its delivery of the CSS arrangements. We note that the required engagement and cooperation is not limited to licensees.

8.23. The details of these requirements are still being developed, though as a minimum we expect that they will include obligations around data cleansing, migration and testing as well as a broader requirement to cooperate with the programme. We will test the detail with the regulatory group of industry representatives, before carrying out a wider industry consultation in the early summer.

8.24. We believe that an incentives and sanctions regime should form a key part of the regulatory underpinning, but the proposals on these will also be considered further, acknowledging that the time-bound nature of the transitional requirements means that some sanctions are likely to be more suitable than others.

SCR option

8.25. The SCR process provides a tool for Ofgem to give direct effect to significant policy initiatives through the industry code framework, particularly where the normal modification procedures may otherwise be incapable or ineffective. The Switching Programme launched a SCR in November 2015, since which time SCR process options have been modified as follows:

- 1) Ofgem directs licensee(s) to raise the appropriate modification(s);
- 2) Ofgem raises the modification proposal(s) itself; or,
- 3) Ofgem leads an end-to-end process to develop the code modification(s) including provision of legal text.

8.26. We intend to adopt an Ofgem-led end-to-end SCR process. This will mean that the standard modification processes for the various codes will not apply. Instead, Ofgem will lead the consultation and engagement necessary to develop the appropriate code changes, using industry expertise to identify impacts on existing codes and consult with wider industry on the proposed changes and drafting. We will work with the existing code bodies and panels to set out how the SCR modifications will fit with their processes. We believe this approach is the best way to ensure there is a coordinated, approach across the entire suite of code modifications, licence modifications and the development of the REC, though as set out in our SCR guidance⁹⁵ this does not preclude our following a different SCR process if circumstances change.

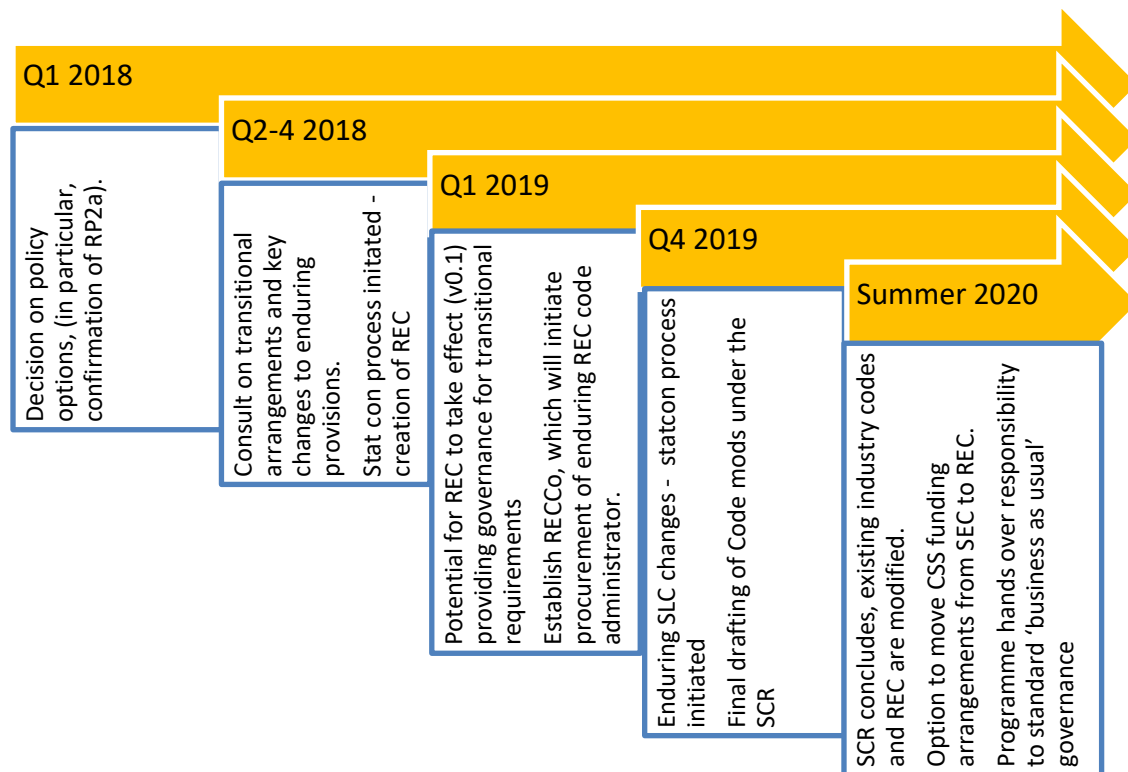
8.27. Given the evolution of the reform package since we published the Target Operating Model, we will also review the SCR launch statement to ensure it accurately reflects the prevailing thinking and scope of the programme. We will consult on any revisions to that launch statement as part of our summer 2018 consultation.

⁹⁵ https://www.ofgem.gov.uk/system/files/docs/2016/06/scr_guidance.pdf

Governance framework timetable

8.28. We intend to publish both the draft of the enduring REC provisions and, as far as practicable, drafts of the consequential modifications to existing industry codes before the start of the DBT phase. If issues do arise during DBT, then we will still have time to work with industry to address these before the final code modifications and the 'initial scope' REC are implemented at programme go-live.

8.29. We included a high level indicative timeline in the September consultation and this timeline remains relevant:



8.30. We acknowledge that there is a lot of work to do to set up a new code and amend existing codes and licences, cohesively and within the programme timeline. We have had our high-level plan independently assured to test that the key stages have been considered and that the overall timeline is broadly achievable. As our thinking develops further, and our proposals become more granular, we will re-evaluate the timeline.

8.31. We will consider early appointment of a REC Administrator to assist with the work to be done around the establishment of the enduring REC governance and processes.

9. Next steps

Industry mobilisation

9.1 We have set out in this document our decisions on the new switching arrangements. This document and its appendices, together with the end-to-end design products to be published shortly and a number of security products, comprise our Design Baseline 3. We believe these published documents should provide sufficient detail on the new arrangements, and the processes and timelines for putting them in place, to allow all impacted industry participants to understand the implications for them and to start making preparations to ensure that they can meet the requirements of the programme in a timely manner.

9.2 Any changes to these documents will be managed through programme change control and new baselined documents will be published as appropriate to ensure that all participants have the most up to date versions of all programme documentation.

9.3 Our Enactment phase governance arrangements are intended to ensure that all impacted industry participants are able to stay informed about developments within the programme and inform them where appropriate. Any industry participant that would like to be more involved in the programme, or needs more information, should contact the programme team.

9.4 We will continue to work with all industry participants to ensure that the programme is fully transparent and is provides the information required by participants to enable them to play their role.

Maintaining our business case

9.5 We expect to publish the Full Business Case, which is the next (and last) iteration of our business case in Q2 2019. When we publish the Full Business Case we expect to have a good understanding of the services that are being procured and their costs. We expect to publish the document prior to the formal signing of contracts for the CSS.

9.6 The purpose of the Full Business Case is to revisit and, where required, rework the Outline Business Case analysis and assumptions, building in and recording the findings of the formal procurement. The Full Business Case, at its conclusion, recommends the “most economically advantageous offer”, documents the contractual arrangements, confirms funding and affordability, and sets out the detailed management arrangements and plans for successful delivery and post-evaluation.

9.7 We will maintain our assessment of the impact of RP2a over the intervening period. Where appropriate, we will provide updates to the programme board and to external stakeholders. We expect any further iterations of the IA to be in the form of update documents rather than replicating our full analysis.

9.8 The Full Business Case will be used during the DBT and early years of operations stage as a reference point for monitoring implementation and for logging any material changes that are required.

9.9 The Full Business Case and its supporting products will be used as the starting point for post-implementation evaluation, both in terms of how well the programme was delivered (project evaluation review) and whether it has delivered its projected benefits as planned (post-implementation review).

Feedback

9.10 We will continue to seek input from affected stakeholders throughout the remaining phases of the programme. If you would like to feed into this process, and are not currently actively engaged with the programme, please send us an email at the address below. We also welcome any feedback on this document.

switchingprogramme@ofgem.gov.uk

Appendices

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Appendix 1 – Summary of responses

1.1. The table below shows the list of parties who responded to our July and September 2017 consultations:

List of respondents

	Name	July document	Sept document
1	Bristol Energy		X
2	Bulb		X
3	BUUK	X	X
4	C&C group	X	
5	Cadent	X	X
6	Calvin Capital	X (conf.)	X
7	Centrica	X	X (conf.)
8	Citizens Advice	X	X
9	DCC		X
10	DONG Energy		X
11	Drax		X
12	Engie	X	
13	E.ON	X	X
14	Ecotricity		X
15	EDF		X
16	ElectraLink	X	X
17	Electricity North West	X	X
18	Electron		X
19	Elexon	X	X
20	Energetics		X
21	Energy Networks		X
22	Energy UK	X	X
23	ESP Utilities Group	X	X
24	Extra Energy	X	X
25	First Utility		X (conf.)
26	Flow Energy		X
27	Gemserv	X	X
28	Hudson Energy		X
29	IBM		X
30	ICoSS	X	X
31	Information Commissioner's Office		X
32	Money Saving Expert		X
33	Money Supermarket		X
34	MRA Executive Committee		X

35	National Grid		X
36	Northern Gas Networks	X	X
37	Northern Powergrid Metering	X	X
38	Octopus Energy	X	X
39	OVO	X	
40	Pure Planet		X
41	Regent Gas		X
42	Scottish Power	X	X
43	SGN	X	X
44	Smart Energy Code Panel		X
45	Smartest Energy		X
46	SP Energy Networks		X
47	SPAA Board		X
48	SSE	X (conf.)	X (conf.)
49	Statoil UK		X
50	Tech UK	X	X
51	UK Power Networks	X	X
52	Utilita	X	X
53	Utilities Intermediaries Association	X	X
54	Verastar		X
55	Wales & West Utilities	X	X
56	Western Power Distribution		X
57	Xoserve	X	X

Summary of responses

1.2. All non-confidential responses received by Ofgem have been published on Ofgem's website (www.ofgem.gov.uk).

1.3. The summaries below sets out respondents' views on the propositions put forward in our July and September consultation documents and the IA. Where we indicate the proportion of respondents that expressed a view on a proposition, this is from the total that commented on the specific question rather than the total number of responses we received to our consultation.

1.4. There were fewer responses received to questions posed in the September IA than those in the consultation. Some parties also commented on other aspects of our proposals and these views have also been considered, but not necessarily summarised in this appendix.

September consultation responses:

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? If not, please provide evidence.

1.5. The majority of respondents agreed with the assessment that RP2a provides the best value option. In addition to the supporting comments we received the following views:

- One respondent said that they did not support the CSS being specified to include an instant objections process from the start. The same respondent felt that enabling customers to switch faster than five working days could compromise the reliability of the new arrangements and proposed that Ofgem evaluate the impact of a design that delivers five working day switching instead.
- Two respondents said that RP2a delivered a more complex, costly and less robust system architecture due to an additional central data service provider role being performed by the CSS.
- One respondent favoured RP2 or RP3 because they believe customers should be able to access the benefits of next-day switching seven days a week.
- Two respondents felt that the delivery of other industry programmes should take priority, for instance the smart meter rollout. They proposed a pause to the Switching Programme to consider wider strategic developments such as Blockchain.
- Five respondents, primarily non-domestic suppliers, said that they preferred RP1 because the proposals set under RP2a were less cost-efficient, hindered switching reliability and provided benefits that mainly fell to the domestic sector.
- One respondent said that Ofgem's IA required further analysis to take into account recent announcement of the proposed price caps before providing a view.

Ofgem response

1.6. We welcome the strong support that we have received for RP2a and our analysis that this represents the best value option.

1.7. In relation to the concerns raised on our analysis of RP2a:

- We note the concern that the CSS should not be specified at the start to include instant objections capability. If objections are retained in the longer term then this capability is required to deliver start-of-next-calendar-day switching. We continue to believe that there would be significant benefits from start of next-calendar-day switching. Whilst the cost to suppliers of moving to instantaneous objections currently outweighs the quantifiable benefit to consumers, this may not remain the case as the market changes and new services are developed to benefit from faster and more reliable switching. We will keep the potential benefits of start of next calendar day switching under review and undertake a further IA on such a change should we consider it appropriate to do so. The cost of incorporating this functionality in the CSS now is believed to be minimal, whereas the cost of introducing it to

the CSS later could be substantial. We therefore think that it is sensible to incorporate this functionality in the CSS from the start rather than seeking to retrofit it once the CSS is operational. This view is subject to the costs of incorporating functionality now and we will test this view further as part of the CSS procurement process that will be run by DCC.

- We do not agree that next-working-day switching will compromise reliability and that we should move our ambition to a five-day process. Our proposals, which include data cleansing, the development of a dual fuel REL for each premises should make it easier and quicker for suppliers to find the right premises to switch. We believe that this can happen next working day and that this is in keeping with consumer requirements, including future requirements, from smart energy markets. However, we recognise the vital importance of a reliable switching experience for consumers. As described in our response to Question 6 below, we propose an initial period after go-live when the switch should be no quicker than five days unless the supplier can meet set criteria. This short transitional period is to allow Ofgem to confirm that moving from five to next-working-day switching will not have an unexpected impact on consumers.
- We do not agree that the CSS will necessarily increase the complexity of the overall industry architecture. While the CSS will be an additional system it will be the new focus of the central gas and electricity switching requirements. We anticipate that there will be efficiencies for suppliers in dealing with a single body to conduct a dual fuel switch. We do not agree that the new system will be less robust than the current arrangements. It is being designed to be reliable and to ensure that there is a clear understanding of responsibilities in the data model, eg who is responsible for updating and maintaining data. We recognise that introducing the CSS will lead to industry costs. However, we demonstrate through the updated IA accompanying this document that RP2a provides the best overall package for consumers against the objectives of the programme.
- We do not agree that RP2 and RP3 represent the best overall set of reforms for consumers at this point in time. Our IA shows that these reform packages come at significant additional cost to RP2a, without offering offsetting benefits.
- We note the concern raised by several parties that the energy market is rapidly changing and that the Switching Programme should pause while other programmes take precedence and other developments such as Blockchain are explored. We do not agree that such a pause is in consumers' interests. The Switching Programme is likely to take a further three years to implement its proposals. Any pause to the programme will delay consumer benefits. We are working closely with other industry change programmes, for example on smart meter rollout and electricity settlement reform, to ensure a coordinated approach and to understand and manage industry resource pinch points. We have also explored Blockchain technology and established the RP2a design to be as "technology neutral" as possible so that bidders in the CSS procurement will be able to bring forward their new and innovative ideas for how this system should be operated for assessment against the set evaluation criteria. We

believe that the introduction of the new switching arrangements will facilitate innovation in the industry and should go ahead as soon as possible. Delaying the introduction of faster and more reliable switching will impede consumer engagement and effective competition.

- We note that some non-domestic suppliers prefer RP1 as they perceive RP2a to be higher cost and to have less benefits for them and their consumers. For the reasons set out in this document and the accompanying Impact Assessment our decision is to implement RP2a. We do not think that it is practical or efficient to split the market and have an alternative set of switching arrangements for domestic and non-domestic consumers. We think that RP2a will have benefits for non-domestic consumers in terms of data accuracy leading to more reliable switching. We think that there will also be benefits for those non-domestic consumers that are on deemed or high out-of-contract rates and want to switch quickly (subject to any termination notice requirements that might apply).
- We note the comment on incorporating the newly announced price caps in our assessment. Our response on this is covered under IA Question 3 below.

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.

1.8. Respondents broadly supported including an annulment process in the CSS for the losing supplier to use to prevent erroneous switches.

1.9. One respondent noted that avoiding erroneous switches would reduce the impact on rolling back settlement and agent appointments.

1.10. Most respondents expressed concerns over the potential for suppliers to misuse an annulment feature and proposed that a robust performance assurance framework will be required. A few respondents felt that the associated risk deemed the process unsuitable for inclusion in the CSS.

1.11. Many respondents questioned the practicality of an annulment feature in a next-day switching environment and proposed that the process would be effective and less time limited in a five-working-day switching arrangement.

1.12. Two respondents believed that losing suppliers would hold significant influence over the annulment process and therefore did not support the inclusion of the annulment process.

1.13. One respondent viewed Ofgem's efforts to reduce volumes of erroneous switches through data cleansing methods as a sufficient solution and felt that this would be less complex and costly than including an annulment feature.

1.14. One respondent did not believe that this feature could be used reliably within the projected timeframes of a next-day switch and noted that this would lead to increased consumer detriment if used in error.

1.15. Respondents felt strongly that an annulment feature should only be used when a customer contacts the losing supplier to say that they have not entered into a contract with another supplier. Respondents said that the process must not be used to artificially lengthen the objections window, for win-backs or to manage the cooling off process. Many respondents said that the circumstances of use should be clearly defined in industry rules.

1.16. Several respondents said that the RP2a design should include a reason for the annulment request raised by a losing supplier.

Ofgem response

1.17. Our view is that an annulment process should be included in RP2a. We are concerned about the potential for misuse by the losing supplier and the inclusion of this process in RP2a is predicated on there being in place an effective performance assurance framework. Given our reservations about the potential for misuse, we expect the CSS to be developed so that the process can be easily turned off should that be considered to be in consumers' interests.

1.18. The annulment process will only be permitted where a customer has informed the losing supplier that it has not entered into a contract with another supplier. We will require the losing supplier to retain evidence of the customer request. Further work will be undertaken to define these requirements and to provide guidance where necessary. Our expectation is that the scope for use of the annulment process will be very limited and as such, the benefits of adding a reason code will be limited. We will confirm this once the further work noted above has taken place.

1.19. The annulment process may have value even if data quality is significantly improved, as it would also be relevant where the gaining supplier has engaged in mis-selling or where mistakes has been made by the supplier in processing the registration.

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.

1.20. Respondents broadly supported the proposal for the losing supplier to be allowed to raise an objection where the Change of Occupancy (CoO) indicator has been set by the gaining supplier.

1.21. Most respondents commented that, as with the annulment process, there was significant potential for misuse. For many respondents, this meant that a strong and enforceable performance assurance framework to monitor the feature would be

required.

1.22. Several respondents said that compliance issues were an issue for the non-domestic market rather than for domestic consumers.

1.23. Some respondents also noted that there were compliance issues with the gaining supplier incorrectly including a CoO flag so as to try to stop the losing supplier from objecting.

1.24. One respondent said that the losing supplier should be required to validate the CoO before allowing a customer to switch.

1.25. One respondent said that the risk to consumer detriment was too large and therefore did not support the proposal. This respondent said that the only circumstance for an objection should be at the explicit request of the customer.

1.26. Another respondent did not consider the proposed timescales of two working days a sufficient amount of time for suppliers to be able to check the CoO flag in the non-domestic market.

Ofgem response

1.27. Our view is that an ability for the losing supplier to object where a CoO flag has been included in a switch request should be included in RP2a. This will apply to both the domestic and non-domestic sectors.

1.28. We are concerned about the potential for misuse by the losing supplier as well as the gaining supplier and the inclusion of this process in the design for RP2a is predicated on there being in place an effective performance assurance framework. Given our reservations about the potential for misuse, we expect the CSS to be developed so that the process can be easily turned off.

1.29. We expect to define rules, and potentially guidance, for when the gaining supplier can apply the flag and when the losing supplier can object. We also expect to define requirements for the retention of evidence by both the gaining supplier on why they think a CoO has occurred and the losing supplier on why it has not.

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.

1.30. Respondents broadly agreed that the annulment and CoO features should be backed by a strong performance assurance regime.

1.31. One respondent opposed the need for a strict performance assurance regime and was concerned that this would lead to excessive reporting. This respondent proposed that monitoring should be carried out on a risk assessed basis and suppliers who deviate significantly beyond the market average should be subject to audit.

1.32. A respondent said that an assurance regime must be proportionate to the scale of the issue and the volumes of transactions in the market.

1.33. Respondents provided a wide range of views on how an effective performance assurance regime should operate. These views included:

- Who should be responsible for the regime (eg a code body and/or Ofgem)
- Where rules should be outlined (codes and/or licences)
- What reporting would be required (including the role of central reporting from the CSS)
- Who should be included within scope of the regime (there was strong support for all suppliers to be captured within scope)
- The potential for compensation arrangements
- The potential to 'name and shame' poor performers

Ofgem response

1.34. We welcome the support for a strong performance assurance regime to help ensure that the annulment and CoO processes are used correctly.

1.35. We are developing the wider performance assurance arrangements in the Regulatory Design workstream this year. We will take into account the views of respondents to this question when shaping the performance assurance regime.

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?

1.36. Many respondents agreed that, in principle, competitive procurement should ensure the most effective solution. However, respondents expressed a range of views on the proposal to require DCC to competitively procure the communications network capability.

1.37. Respondents provided strong support for the re-use of an existing industry network and suggested that this would significantly reduce the cost and complexity of the programme. Most of these respondents urged Ofgem to consider the benefits of appointing the DTN while two respondents favoured the appointment of IX.

1.38. Several respondents noted that DTN and IX are already competitively procured by their respective providers, so there is no competitive benefit in procuring an additional communications network. Instead, this would layer unnecessary cost and process.

1.39. Many respondents said that Ofgem should encourage existing providers to bid into the procurement to reduce to risk of adding into a complex environment.

1.40. Some respondents argued that DCC should have a limited role in delivery of the new switching arrangements as there was a risk of distraction from their other

core activities.

1.41. Some respondents thought that industry should have an active role on the selection panel for the communications network to ensure that the final decision adheres to the cost and capability requirements of industry.

Ofgem response

1.42. In the light of comments received we have concluded that procurement of a dedicated communications network is an appropriate and acceptable approach but might not offer the best outcome for industry. We are consequently planning to explore an alternative approach under which the CSS would be designed to be able to communicate with users over any existing industry networks, or other networks to be added subsequently, at the choice of the end user.

1.43. This approach would have the merit of allowing end users to continue to use existing connections and hardware, whilst also allowing competition between networks for users and the potential to introduce new networks should the need arise.

1.44. DCC have considered the cost implications of this approach and advise that there is a small (approx. £150k) expected additional cost in terms of CSS build and test. We would expect this to be largely offset by reductions in cost to industry participants (who would be able to continue to use existing mechanisms) and the avoided procurement cost.

1.45. The new approach raises a number of questions which we have not yet had time to explore in detail around the technical, commercial, financial, and governance issues that might arise. We plan to explore those issues, including with providers of existing networks and DCC potentially conducting a market testing exercise, before reaching a final conclusion on the best approach for communications network capability for the CSS. We do not intend to consult further on this issue before making a decision as we are confident from the responses to the previous consultation that either approach (competitive procurement or use of existing networks) would be appropriate to pursue.

1.46. We do not agree that DCC should have a limited role in the delivery of the new switching arrangements. DCC already have a licence obligation to procure the systems and services required to deliver the new switching arrangements. It is important that, as the party responsible for procuring the CSS, they should have overall responsibility for ensuring that the CSS and industry participants can communicate effectively, reliably and securely.

1.47. We agree that it is important that industry should be able to inform choices during the procurement process and will ensure that appropriate mechanisms are established to enable this to happen in respect of all aspects of the programme.

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.

1.48. Respondents were generally supportive of the rationale behind a transition window but felt that the end of the transitional period should be dictated by objective criteria rather than an arbitrary date.

1.49. Many respondents argued that three months would be an insufficient amount of time to collect robust data on erroneous switches because there tends to be a two to three month time lag in this data becoming available. Alternatives of a six and twelve-month transition window were proposed to ensure that the impact of the new arrangements on improved reliability could be effectively measured.

1.50. Two respondents argued that a transition period would add unnecessary costs and suggested that sufficient testing of the impact of the data remedies be carried out ahead of go-live.

1.51. One respondent said that allowing switching in less than five days during the transitional period could lead to consumer detriment and confusion, which in turn would undermine the success of the programme.

1.52. Several respondents expressed concerns that it would be costly and inefficient to have a two-staged process where suppliers would be required to reconfigure their internal systems and processes twice over a period of three months.

1.53. Many respondents advised that additional testing would be needed for any suppliers that switched consumers in less than five working days during the transitional period to avoid poor consumer outcomes.

Ofgem response

1.54. We continue to believe that it is sensible to have a transitional period with the expectation of five-working-day switching to test the impact of data improvement remedies on the erroneous switch rate. That transitional period should be long enough to get robust data on the rate of successful switching.

1.55. We agree with the view that we should set objective criteria to determine the end of the transitional period. We will establish objective criteria to demonstrate that moving from the expectation of a five-working-day default switch to the expectation of a next-day default switch would not have an unexpected impact on the rate of erroneous switches. The transitional period will end once those criteria are met. We will publish in due course proposed criteria for ending the transitional period.

1.56. We continue to believe that suppliers should be able to switch faster than five working days, and up to the next working day, during the transitional period if they can do so without harming consumers. We will publish, in due course, proposed obligations that suppliers would have to meet if they wish to switch customers faster than five working days during the transitional period or penalties for switching a customer erroneously.

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.**

- 1.57. Respondents were broadly supportive of Ofgem’s proposal to change the speed of switching regulation.
- 1.58. Most respondents felt that that the choice of switch date should sit with consumers.
- 1.59. One respondent proposed that it would be more appropriate to introduce a principle based requirement to switch in a quick and timely manner.
- 1.60. Several respondents noted that non-domestic customers often arranged switches a long time in advance and that a requirement to switch within five working days of entering into a contract would therefore be inappropriate for this sector.
- 1.61. Several respondents suggested that a five-day requirement may not be appropriate for legacy pre-payment meters where a top-up key must be issued to and received by customers in time for their supply start date.
- 1.62. Some respondents felt that the proposal to change the requirement on speed of switching would add complexity to compliance and reporting measures, particularly where customers choose not to switch in five working days and this has to be captured by reporting.
- 1.63. Some respondents proposed that there should be a transitional period for reporting on the new requirement, dependent upon customer behaviour during the interim period.
- 1.64. Two respondents challenged whether regulatory intervention was necessary as it is already in the interest of suppliers to switch consumers as quickly as possible in order to compete in the market.
- 1.65. Three respondents said that it was too early to consider the speed of switching requirements and that it should be revisited once the new arrangements have been tested.
- 1.66. One respondent said that there was insufficient evidence to prove that faster switching speed would impact consumer engagement.
- 1.67. One respondent said that in order to strengthen consumer confidence, the regulatory requirement should be for next-day switching.

Ofgem response

- 1.68. We agree that consumer choice is key, that consumers should be able to choose when to switch and that suppliers should be able to switch consumers when they want to be switched.

1.69. However, we also believe that it is important, to support competition in the market, that faster switching should become the norm. We have therefore concluded that we should introduce a requirement to switch a customer within five working days of entering into a contract, unless the consumer has requested a later date.

1.70. This requirement will apply to domestic and non-domestic consumers. We note that most, and in particular most large, non-domestic consumers will request a switch date some way in advance. This is entirely consistent with an obligation to switch a consumer within five working days unless the consumer has requested a later date.

1.71. We also conclude that the requirement will apply to pre-payment meters. Suppliers should put processes in place to ensure that top-up keys can be received by consumers within the five working days.

1.72. We will consider what reporting requirements should be put in place to demonstrate compliance. We will consult in due course on the wording of the licence requirement, including exceptions, and the proposed reporting requirements.

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?

1.73. There was near unanimous support for the creation a REC, with only one party expressing a view that Ofgem should be looking to utilise existing code structures to ensure costs are kept to an absolute minimum.

1.74. We received several suggestions around the approach to drafting, with one suggesting we 'make a thorough review of energy and other regulated market operations across the world to inform...establishing of the new code'. Two respondents suggested that drafting should re-use drafting from existing codes and others highlighted that we should prevent it from evolving into a complex code like the SEC. Another suggested 'use of an existing governance framework (an existing code) to develop the code schedules'. One suggested that there may be need for 'the REC to reference the MRA or SPAA (or other existing code) as a stop gap until [all of] these parts are acceded into the REC, so will need to be rewritten several times as the REC expands'.

1.75. Some respondents requested that, when developing the REC, we make use of existing expertise and ensure other market participants can contribute their views. One said 'we encourage Ofgem to consider how it will engage small organisations and new entrants to the market throughout the REC development process'.

1.76. The need to be aware of, and avoid, potential conflicts with existing requirements was raised. One respondent said that we need to consider whether existing licence obligations in relation to existing Codes could cause dual governance issues. Another said that conflicts with existing Codes should be avoided.

1.77. A respondent had reservations about the additional complexity of having to sign up to a further code in the short term, with others pointing out that the benefits of a REC will only materialise once other Codes are removed.

1.78. One party highlighted that the REC should not interfere with existing single fuel switches and consumers with related or multiple meters in a single property must still be able to switch, with another suggesting it could put dual fuel suppliers at an advantage to single fuel suppliers.

Ofgem response

1.79. We welcome the strong support we received from respondents around the proposal to create a dual fuel REC. We did not receive any additional information to suggest there was a more suitable alternative to creating the REC to govern the new switching processes and related energy retail arrangements.

1.80. We recognise there will be a short term increase in the number of Codes, but consider this will be a temporary situation. In the longer term we expect full removal of SPAA and MRA by moving requirements into REC or other suitable codes, which should reduce cost and complexity.

1.81. In developing the REC, we will utilise industry expertise from both our existing Regulatory Design Team and wider Design Forum. We will ensure that market participants of all sizes have the opportunity to express views and shape the final proposals and we will continue to publish documentation on our website and use webinars to help with this. We welcome views on how this process can improve.

1.82. The industry resources within our Regulatory Design Team have worked on other industry programmes and will incorporate lessons learned from these (including Nexus and the SEC). We will seek to utilise well-drafted areas of existing Codes, including potentially referencing existing Codes where appropriate. It will be cross-checked against existing Codes in the review process to avoid conflicts or gaps. We also intend to pursue consequential changes to other codes through a co-ordinated Ofgem-led SCR process.

1.83. The REC design should not have a negative impact on single fuel switches or single fuel suppliers. We recognise that there will be instances where the requirements of one fuel differ from the other and we see no reason why these exceptions to the dual fuel process cannot be appropriately documented in and governed by the REC. As we further consult on the detail of the new switching arrangements we encourage parties to highlight any specific issues or concerns they may have and we will address them as appropriate.

1.84. As part of our work on the programme, we will keep the prevailing licence conditions under review and, in addition to provisions relating to the REC, will propose modifications wherever appropriate to bring them into line with the new switching arrangements and ensure consistency across codes and licences.

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

Scope

1.85. The majority of respondents who answered this question said they agreed with the initial scope. However, a number of suggestions were made on areas to include and exclude.

1.86. Some wanted the initial scope to go much further, completely replacing the SPAA and MRA at the end of the switching programme. Others wanted to reduce the proposed initial scope to focus on critical CSS elements and transitional governance arrangements.

1.87. Several parties suggested that we be flexible by either: allowing 'tidying' of codes to remove anomalies and conflicts or, keeping the initial scope under review, considering whether new arrangements are brought straight into the REC, as opportunities present themselves.

1.88. Several parties asked for specific issues to be considered within the initial scope, with two respondents saying that provisions for vulnerable consumers should be included. Three other respondents offered a list of specific detailed suggestions.

1.89. We also received views on the, longer term, full scope of the REC. Six respondents had detailed views, summarised as follows:

- Areas of existing codes important to DNO management of registration and settlement processes should be retained in current codes or in the REC.
- Metering regulation should be out of scope for the REC.
- There needs to be further clarity on the distinction between retail and settlement, with settlement functions left within the BSC.
- Clarity is needed on how unmetered supplies will be handled.
- MPRS requirements are currently split between the BSC and MRA; there should be further consideration as to whether they are all better placed in the BSC going forward.
- Wholesale matters managed by GTs and shippers should remain within the UNC and independent Gas Transporter UNC.
- Harmonisation across codes should only happen if there is clear benefit.
- Data relating to agent appointments and settlement parameters should remain under MRA governance.
- In order for the transition to a full REC to happen, there should be a co-ordinated approach beyond the Switching Programme.
- The long term scope of the REC should go further to include codes such as SEC and the Smart Metering Installation Code of Practice.

1.90. Some parties had questions around the scope of the Switching Programme in specific circumstances (including for Half Hourly Metering, different profile classes and SMETS2 meters), and how differences in processes would be captured within a REC.

1.91. One party said that it may be appropriate for the REC to cover some activities of PCWs and TPIs, and ensure that in the future REC applies to, and is amended to facilitate, new types of companies involved in switching.

Ofgem response

1.92. We welcome the overall support for the initial scope and all of the detailed comments we received on this. Our Regulatory Design Team will now conduct a thorough exercise to be able to produce a logical and objective 'initial scope' and work through the various suggestions we have received on this.

1.93. We continue to believe the initial scope is likely to sit somewhere in between the two extremes of full SPAA/MRA replacement and CSS-only requirements, depending in part on industry parties' appetite for change and willingness to progress code changes that may not be within scope of the Switching Programme and SCR to enact.

1.94. On the specific point around including vulnerable consumer requirements in initial scope, Ofgem's principle objective is to protect the interests of existing and future energy consumers and this includes consumers who are in vulnerable circumstances. We believe that the interests of vulnerable consumers would be equally protected regardless of whether their specific requirements remain in existing codes or sit within the initial scope of the REC.

1.95. We see merit in the suggestion that we apply a degree of flexibility with the initial scope. We believe we should be open to: (a) 'tidying' of codes to remove anomalies and conflicts; and (b) as new justifications emerge, considering whether requirements initially considered as within the 'full scope' are brought forward into the 'initial scope'. Proposals on either (a) or (b) would require endorsement by the Regulatory Design Forum and be subject to change control.

1.96. Although not explicitly asked about, we received views on the scope of the full REC (ie beyond the scope of the Switching Programme). As part of the programme we will work with the Regulatory Design Forum to produce a more detailed vision of the full scope of the REC. We believe that beyond the programme, the journey to achieve this the full scope should be driven by industry, with Ofgem playing a supporting and not a coordinating role. We do not envisage that the full scope would capture every single code that contains a requirement on suppliers. Having one code across all functions would be unwieldy and unfocussed and it is appropriate for areas such as settlement and metering to remain in separate codes.

1.97. The switching programme covers all metering types (including export and unmetered metering points) and the processes have been designed to be as similar as possible for all types, therefore the REC governance should be able to cover all of these within the same set of requirements.

1.98. The new switching processes do not mandate specific actions of PCWs and TPIs. However, Ofgem is currently exploring the supplier hub model to understand if it needs to be reformed to allow more innovative businesses to operate in the market or if it remains an appropriate model for the future. We will work with the Ofgem team leading this work and if the switching rules are identified as being a specific barrier to innovative business models, then we will seek to address these.

Ownership

1.99. The majority of respondents who answered this question supported the lead option of gas and electricity suppliers owning the REC.

1.100. Two respondents did not agree, with one saying it would in effect be asking suppliers 'to mark their own homework'.

1.101. One respondent foresaw logistical challenges in getting suppliers to cooperate in setting up the governance arrangements, proposing that Ofgem will either have to lead this or nominate a lead organisation.

1.102. Two respondents wanted to further understand what a change of ownership from network operators to suppliers would mean, with one asking 'what this actually means in terms of how the REC will be enacted through licences, what responsibilities it will bring and funding'.

1.103. We also received the following comments:

- On accession and compliance of other parties to the REC: Six respondents agreed that DNOs/GTs should be party to and comply with the REC. Several respondents welcomed further consideration by Ofgem on whether agents or intermediaries should be obligated to accede to the REC. One party suggested that we consider whether the BSC and the gas CDSP should also be a REC party. One party asked for assurance that DCC's switching role will 'not diminish or detract from compliance with the DCC's obligation to meet its SEC obligations'.
- On REC funding, several parties suggested further consideration will be needed on how to fund a code that is multi-party and covers both fuels. Five network operators said that the REC should not be funded by network operators.
- On the enduring CSS/REC governance, one party said Ofgem should include design and development of the CSS service contract within the scope of future work to develop the REC.

Ofgem response

1.104. We welcome the strong support from parties on our proposal that gas and electricity suppliers should own the REC.

1.105. We do not believe that ownership of the REC will impact on the ability of suppliers or other categories of licensee to comply with the requirements set out in the REC. The initial development of the REC requirements will be consulted on across all categories of market participant and, as with existing industry codes, subsequent changes will be subject to a robust governance process which also captures the views of parties other than suppliers.

1.106. We recognise the interest in further understanding the specific role of network operators in the REC and, although we fully expect them to accede to the code, details around funding options and their role in the code governance processes are being further developed.

1.107. We accept that the volume of suppliers in the market is considerably greater than when the last supplier owned code was created and setting up the governance arrangements could be a challenge if there is no forum for them to cooperate. The Switching Programme will therefore continue to drive this until a new or existing code administrator is assigned this coordination role.

1.108. We will further develop our thinking on the wider governance arrangements for the REC including party accession, funding, the modification process, and the enduring CSS/REC governance arrangements. This will be set out as part of a draft REC in our next consultation. Subject to where we land on the REC scope, we will also continue to give further consideration to whether it is necessary or appropriate for wider market participants such as shippers, agents and intermediaries to accede to or otherwise engage in the governance of the REC. Recognising that we cannot directly mandate that unlicensed parties such as supplier agents or intermediaries accede to the REC, this may require certain provisions either to be backed off in contract, or possibly prescribed as a condition of access to certain services. We will therefore have regard to work Ofgem is also undertaking on stimulating innovation, which includes reviewing the prevailing supplier-hub model.

1.109. In relation to concerns raised that DCC's switching role may distract from its smart commitments we want to clarify that our intention is to retain licence condition 15.4 within DCC's licence.⁹⁶ This condition obliges DCC to prioritise its smart metering activities in the event that any conflict were to arise between switching and smart obligations. DCC has committed to use a dedicated, discrete programme team to support the Switching Programme to ensure that there is no impact on the delivery of the smart metering communication service. We will consider the need to extend this commitment when we consult on the modifications to DCC's licence to extend its role.

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?

1.110. Respondents provided strong support for the body procuring and negotiating the CSS contracts to manage the contracts during the DBT, with the majority of respondents keen for Ofgem to maintain oversight and control during this phase.

1.111. Respondents generally agreed with the proposal to extend DCC's obligation to include management and support of early years operations of the CSS.

1.112. Many respondents emphasised that strong and enforceable incentives and sanction regimes would be required if DCC's licence was to be modified.

⁹⁶ "The Transition Objective and/or General Objectives of the Licensee shall prevail in the event of a conflict between their provisions and the requirements imposed on the Licensee by the Interim Centralised Registration Service Objective."

1.113. Some respondents were keen to see the long term management of the CSS sit with RECCo and suggested that Ofgem should define a clear exit criteria for management transition. One respondent felt that a robust and effective procurement process would render a licence modification unnecessary as this would allow industry to manage the activities as operations should be simpler.

1.114. Some respondents felt that DCC may not be sufficiently resourced to effectively procure and evaluate the correct solution on behalf of industry.

1.115. Ten respondents held particular concerns over DCC's ability to manage costs and proposed that more cost effective possibilities may be available from existing industry expertise. One respondent suggested that DCC could collaborate with industry partners, such as Gemserv or Xoserve, to ensure the delivery of a working system.

1.116. One respondent felt that DCC's role should be limited to only managing the interactions between the Switching Programme and the Smart Metering Programme.

1.117. One respondent said that DCC should have separate cost mechanisms for smart metering and CSS activities so that CSS activity costs could be allocated to suppliers only.

1.118. One respondent said that Ofgem should require DCC to set up an appropriately constituted user group to advise on the DBT and go-live phase.

1.119. A few respondents noted that there would be benefits in having programme plans independently assured and sponsorship roles supported by an independent body.

Ofgem response

1.120. Based on the consultation feedback we will have decided in principle to extend DCC's licence obligations to cover the DBT phase and early years of operation. We will develop the detail of the necessary changes the DCC licence with input from programme stakeholders. We intend to hold an initial policy consultation in early summer 2018 in parallel with the initial consultation on the REC to reflect the interdependencies between these two areas. Our intention would then be to hold a final statutory consultation in autumn 2018.

1.121. Following the strong support for the body procuring and negotiating the CSS contracts being best placed to manage the contracts during DBT, we will look to consult on placing an explicit requirement on DCC. Our intention is to outline a role in DCC's licence to manage the delivery of a secure and economical CSS during the DBT phase and early years of operation. This management would be carried out through the contracts that DCC is due to sign at the end of the transitional phase⁹⁷ of

⁹⁷ The transitional phase of the programme refers to Blueprint, Detailed Level Specification and Enactment. It reflects the activities up to contract signature and the start of DBT.

the programme (anticipated to be May 2019). This will enable continuity of procurement and implementation teams into operations and mitigate some of the risks associated with bedding in of the systems and resolution of issues.

1.122. Ofgem will continue to have a role as programme sponsor during DBT and the post-implementation phase, while DCC's role will be focused on the core systems. We also propose that DCC procure third party system integration and assurance functions to support them in this, whilst Ofgem will be responsible for procuring independent end-to-end system co-ordination and programme assurance functions. This is further outlined in Chapter 7 and will be developed with input from programme stakeholders early in 2018.

1.123. Our intention for the DBT phase and early years of operation is to ensure DCC's expenditure remains economic and efficient under a similar ex-post plus price control framework to the transitional phase. This would include a published business case and forecasts costs along with regular reporting. During the transitional phase to date this has provided transparency of DCC's forecast activities and costs and has seen forecast costs for the phase significantly decrease (from £24m to £17m). This would be in conjunction with strong and specific incentives that would hold a material level of margin at risk for timely to the specified quality delivery of key milestones with these staggered across the full length of the DBT phase and early years of operation. These incentives should include (but not be limited to) objective and robust criteria to mark the end of one phase and entry to the next.

1.124. We expect a representative of the proposed REC Board/Panel to be a part of the evaluation panel. This should help ensure that the evaluation of any bids, as part of the DCC run procurement process, takes into consideration the needs of industry. We aim to have this representative in advance of tender packs going out in August 2018. We will also explore options to ensure that programme stakeholders are kept informed during the procurement process with options to review evaluation and recommendations. This will be further outlined within the DCC's Procurement Plan due to be published spring 2018.

1.125. We did not consult on options for the enduring management of the switching system and we will keep the above proposal open to review as to whether it remains the most appropriate model and would consult with stakeholders on this. One opportunity for review would be the end of DCC's current licence term (September 2025). This would be an appropriate time to consider whether provision of the CSS should form part of the re-tendered licence or whether it would sit better elsewhere, for example with the REC. We will consult with stakeholders before making any further amendments.

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

1.126. The majority of respondents agreed that there should be regulatory underpinning for the transitional requirements and that this should be contained in the REC.

1.127. One respondent disagreed and suggested that an independent assurance company / project management resource should be engaged to facilitate timely project delivery, and this would negate the need for regulation.

1.128. A few respondents agreed that there should be regulatory underpinning but had alternative suggestions on what regulatory underpinning means:

- Two respondents suggested that transitional requirements should be placed within an existing Code (or Codes).
- One respondent said there should be no licence requirements, only Code requirements.
- One respondent suggested that transitional requirements should not deflect from the main purpose of the Code and be contained in an appendix.

1.129. Four respondents suggested that we should learn from Project Nexus and the Smart Metering Programme when developing the requirements. One respondent said that consideration should be given to the links with other industry programmes of work and business as usual.

1.130. One party highlighted that the REC should be set up before the CSS go-live date to ensure it can be fully functioning at go-live.

1.131. Two parties suggested that a structured development plan to move from the current codes to the REC is needed.

1.132. Several comments on sanctions were received. Two respondents commented on restrictions on registrations, with one suggesting that Ofgem should consider the consumer impact of any restrictions on registrations, and the other respondent saying that without sanctions there was a risk that some suppliers may deliberately or otherwise delay the programme. A respondent said that financial incentives or sanctions on DCC should be controlled under the DCC licence. Another party was 'uncertain whether financial sanction or licence remedies would be justified or achievable for what should be for a period of 12 – 18 months'.

1.133. One respondent said that regulatory requirements may be needed around data migration for testing purposes to address any ownership and GDPR issues.

Ofgem response

1.134. We welcome the support for regulatory underpinning for the transitional requirements within the REC.

1.135. We recognise that the use of an independent assurance organisation was effective in delivering Project Nexus. As Project Nexus was an industry project the programme did not operate with formal regulatory underpinning and Ofgem's decision to takeover programme sponsorship was made in the interest of protecting consumers. With respect to the Switching Programme we are using lessons learned from Project Nexus to help shape our approach to the delivery of the programme, in particular the shape of governance and assurance over the programme. One of the key lessons from Project Nexus was that there was insufficient regulatory powers to compel market participants to work together to achieve go-live.

1.136. It is our intention to both introduce licence modifications and utilise an initial version of the REC to provide the regulatory underpinning for the Switching Programme's transitional requirements. However, we accept that any transitional requirements should not detract from the main purpose of the REC, and will give consideration to the appropriate means of structuring it in a way that clearly signals which aspects will endure, and which may drop away once we exit from the programme. We also recognise that specific programme milestone dates need to be suitably flexible and as such should not be explicitly codified within the REC. We consider that this could, for instance, be achieved through the REC incorporating by reference any document or plan that is maintained under Switching Programme governance.

1.137. The governance around the REC for these transitional arrangements will need to be established prior to the first version of the REC being designated. To avoid development of the REC content delaying the introduction of the transitional requirements, we will develop our drafting in layers to ensure that the basic drafting needed for the REC to operate on an interim basis is ready for the start of DBT (eg by developing interim instead of enduring governance arrangements). In doing so, we recognise the risk that some of the enduring REC governance arrangements may take longer to develop.

1.138. We believe that an incentives and sanction regime should form a key part of the regulatory underpinning, both for the transitional and enduring REC provisions. However, the differing nature of the provisions may appropriately require different and tailored approaches. The extent of any impact that non-compliance may have on wider market participants and consumers will also be an important consideration. For the DCC specifically, it may be more appropriate for incentives and sanctions to be captured within its licence and/or price control mechanism.

1.139. We recognise that the focus of the transitional requirements section within the consultation was around an approach to getting industry systems to be ready for the new switching arrangements. We agree that a plan is also needed to set out the transition from existing codes to the REC and we will provide further detail in the early summer consultation.

1.140. We have published a Privacy Impact Assessment⁹⁸ which sets out our approach to ensuring that all data is handled in accordance with the GDPR. We will consider further whether there are specific issues that remain to be addressed in relation to the data migration and testing process.

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

⁹⁸ https://www.ofgem.gov.uk/system/files/docs/2018/02/privacy_impact_assessment.pdf

1.141. There was almost unanimous support from respondents for an Ofgem-led SCR process in accordance with a revised SCR scope.

1.142. Of the two parties who opposed our proposals, one had been opposed to the SCR powers themselves when they were introduced, being concerned at an over-reliance upon Ofgem to fully capture the necessary changes and deal and avoid any unintended consequences. The other respondent considered that the prevailing (and more restricted) process that had been in place at the time the switching SCR was launched should continue to apply through to its completion.

1.143. Several parties suggested that although Ofgem co-ordination was sensible, continued industry participation and engagement will be required, particularly around changes to existing codes as each code has its own drafting style.

1.144. One party responded to say that code administrators should not allow suppliers to unduly delay any necessary preliminary industry changes that may be raised outside of the SCR process, while another was keen to understand how the SCR process will interact with the current code modification procedures.

1.145. One party suggested that this programme of work should be included in any strategic direction that Ofgem develops through its code reform work and that it would be more efficient if Ofgem could empower the code administrator to be able to bring forward the necessary modifications arising from the SCR.

Ofgem response

1.146. The SCR processes have changed since we launched our switching SCR, allowing us to adopt an end-to-end (E2E) Ofgem led approach for the entire suite of code and licence modifications. We believe this process will be best able to manage the complexity of the task of developing a new code, amending a number existing Codes and modifying licence conditions in a coordinated manner. We acknowledge that in some circumstances, a process initiated under a particular set of rules should remain subject to them through to completion. However, the switching SCR itself remains at an early stage. Further we consider that the proposed reform package and its implications for relevant industry codes has developed to such an extent that it would in any case be appropriate to revise the SCR launch statement and its expected scope. In particular, the original statement had envisaged all switching arrangements being captured in the SEC, with alternative proposals for a REC being a later development. We therefore intend to consult on revisions to the launch statement consistent with our latest thinking, and consider that this will also be an opportune time to reset expectations and address any concerns with respect to the nature of the SCR process that will be followed.

1.147. An Ofgem led SCR process has not been followed before, and we understand that participants want to ensure that industry will continue to have a role in this process. We fully support this. We intend to use industry code experts to help identify the areas of codes that need to be changed and we will test this, and the associated drafting, with our regulatory group before going out to wider consultation. In addition, we will be work with the relevant code administrators and code panels to establish collaborative ways of working and identify appropriate touch points between the SCR and their existing processes.

1.148. We will also seek to identify whether there may be code changes that could be undertaken through normal code modification procedures in advance of the SCR conclusions, which may assist in the preparation for and implementation of the new CSS arrangements. In particular, we will seek to signal well ahead of time any changes that may be required to legacy systems, and give industry parties opportunity to extend the lead time available for those changes by initiating work ahead of any supporting code or regulatory changes being given formal effect through the programme.

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

1.149. Six respondents thought the timetable was achievable, and several of those who thought it was ambitious still thought it was achievable. In contrast one respondent did not consider that the timetable was ambitious enough.

1.150. Of the sixteen respondents who said it was ambitious:

- Five said this based on experience of other industry programmes (citing Nexus and Smart Metering)
- Three said there was a lot of work to do in setting up a new code and progressing changes to other codes.
- Three said the overall Switching Programme timelines were ambitious
- Two referenced resource constraints because of other programmes of work currently underway in the industry.

1.151. To help work within the timeline proposed, several parties made suggestions of appointing a REC Administrator early or an independent project manager to focus on development and delivery of the REC.

1.152. Several participants suggested that the timelines needed further clarity. Two respondents welcomed the opportunity to see early drafts of the REC and code changes.

1.153. One respondent suggested the timelines should be delayed until more progress was made with smart metering.

Ofgem response

1.154. We agree there is a lot of work to do to meet the Switching Programme indicative timetable. However, our high level plan has been independently assured to verify that the key stages have been considered and that the overall timeline is broadly achievable. We will continue to have regard to the feasibility of the timeline as our thinking further develops and finer details of the proposals emerge.

1.155. We agree that the early appointment of a REC administrator, and possibly other aspects of the REC framework such as the establishment of the REC company, Board and Panel, may help facilitate the programme and we will further consider how this may be achieved.

Impact Assessment 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?

1.156. Most respondents supported our overall approach to estimating industry and public sector costs. Some provided specific comments. The key challenges are as follows and we provide further detail below:

- Treatment of uncertainty for industry costs and benefits
- Delivery risk of options
- Additional costs for two stage transitional phase
- Length of assessment period
- Barriers to entry/competition
- Distributional impacts for non-domestic and small suppliers

Uncertainty

1.157. Several respondents provided views on how we have approached uncertainty in the industry cost analysis:

- Some costs have been assumed by Ofgem rather than being estimated directly by industry (eg. suppliers' costs for non-respondents, post-implementation and programme costs). These might not reflect real costs.
- Some costs may have changed from the when the RFI data was submitted by stakeholders as greater clarity has been provided on design. Some respondents said that there is a need to re-estimate these costs.
- Some questioned DCC's costs given the early stage of the programme.

1.158. In addition, some respondents challenged the limited use of sensitivity analysis to test the impact of our assumptions.

Delivery risk

1.159. Some respondents said that the risk associated with the implementation of new systems and processes should be accounted for in the IA. Some respondents argued that contingency costs and likelihood of delays should be added to the cost base for all packages.

1.160. Some commented that RP2a has a higher delivery risk than RP1.

1.161. The IA acknowledges differing delivery risk through different post-implementation costs for the reform packages. However, some respondents did not consider that this was sufficient.

Transitional switch speed

1.162. Some respondents said that there would be additional costs for testing different speeds and changing default arrangements from five working days to next-working-day. They said that these costs should be accounted for in the IA.

Length of assessment period

1.163. Some respondents considered that the assessment period was too long and questioned what assumptions it has been based on. Some asked if a shorter assessment period would alter Ofgem's decision.

Barriers to entry and other competition impacts

1.164. Some flagged a concern that small suppliers might not obtain additional funding (in addition to funding already required for smart meter roll-out) to finance changes needed for the Switching Programme and would exit the industry.

1.165. Some consider that additional costs related making the Switching Programme changes would create a temporary barrier to entry.

1.166. Some thought that both these factors would lead to a reduction in competition in the domestic sector, and possibly in the non-domestic sector, as a consequence of suppliers exiting the market.

Distributional impacts

1.167. Some respondents said that the impacts on the non-domestic market and smaller suppliers had not been sufficiently addressed.

1.168. In relation to the non-domestic market, several respondents said that costs for suppliers were not justified given that most of the benefits of the proposals would accrue to domestic customers.

1.169. One supplier said that the case for including the non-domestic sector in the scope of the proposal has not been made.

Ofgem response

1.170. We have addressed the issues raised in response to this question in the same order as they have been described above.

Uncertainty

1.171. Any assessment of future costs will include a degree of uncertainty. To address uncertainty we have:

- Conducted two RFIs in 2017 and tested the data with respondents.
- Where we did not have usable data from these RFIs, we have derived costs based on assumptions that we have tested with industry through consultation.
- In addition, where we have used assumptions, we have applied cost ranges to reflect uncertainty.

1.172. We have reviewed the assumptions used to derive costs ranges and made changes where appropriate. These are described in Appendix 2 of the accompanying Impact Assessment.

1.173. We continue to think it is important to focus our costs ranges on those areas where we have relied on assumptions to derive costs or where costs are particularly uncertain (eg for build and operation of the CSS). We have therefore increased the scope of the areas covered by cost ranges to now include ongoing costs for suppliers that did not respond to the RFIs. This is described in Chapter 3 of the accompanying Impact Assessment.

1.174. We do not propose to conduct a further RFI on industry costs at this point in time. We consider that the benefits of undertaking a further wide ranging RFI would outweigh the costs and delay that would result. We believe that the information that we have is of sufficient quality to allow us to take a decision to choose RP2a.

1.175. We recognise that further clarity and changes to our proposals will impact on industry cost estimates. Where possible, we have sought data and made adjustments to bring our estimates up-to-date, for example, DCC has provided costs for the CSS building, testing and operating interfaces with both the DTN and the IX Network. In other areas, where we have not been able to obtain data, we have included a qualitative assessment in the Impact Assessment. We will continue to update the Impact Assessment with material changes in impacts.

1.176. We recognise the importance of sensitivity analysis in testing uncertainty around our assumptions. As noted below, we have now assessed uncertainty linked to delivery risk within our sensitivity analysis.

Delivery risk

1.177. Our view is that RP1 is lower risk than RP2a. However, it still has significant delivery challenges. In particular, coordinating and introducing change across two industry codes.

1.178. We consider that RP2a has a higher delivery risk linked to the complexity of the changes and the big bang implementation approach.

1.179. We do not think that it is possible to provide a realistic quantitative assessment of the different delivery risk levels between the reform packages for inclusion in our base case industry costs estimates.⁹⁹

1.180. However, to better understand the potential impact of delivery risk we have strengthened one of the existing sensitivity tests that focused on the impact of a delay. This test now models the impact of a one year delay to the programme

⁹⁹ Other than for post implementation costs which already reflect the expected differences in the costs of the reform packages.

(comprising a six month delay in both the Enactment and DBT phases). This analysis is set out in Appendix 1 of the Impact Assessment.

Transitional switch speed

1.181. We recognise that there may be impacts for industry participants, and in particular suppliers, linked to our proposal for a transitional switch speed period of five working days before moving to next-working-day switching.

1.182. Our expectation is that these impacts would be incurred across all reform packages and they are unlikely to be a key determinant of which reform package should be chosen. We therefore do not consider that it is proportionate to attempt to quantify these impacts. We think that it is important to recognise the potential impacts and we have therefore included a qualitative assessment within the updated Impact Assessment.

Length of assessment period

1.183. In developing the assessment period, we have sought to appraise the benefits of the investment over the expected lifetime of the assets acquired. In coming to our view, we have assessed the lifespan of existing arrangements. In the electricity market, these have remained largely unchanged since the introduction of domestic competition in 1998. In the gas market, the systems, which were in place from 1996 have been recently replaced as part of the wider Xoserve SAP implementation under Project Nexus, although the processes are largely the same. On this basis, we proposed that the new systems can reasonably be expected to have a useful life of at least 15 years, which we have tested with industry at stakeholder meetings. With a period of up to three years from decision to expected full implementation, this led to the proposed appraisal period of 18 years.

1.184. We recognise that the market is undergoing a period of significant change. For that reason we are scoping the CSS requirements so that they are capable of responding to new market requirements without the need for a root and branch replacement. The Switching Programme is looking to deliver lasting improvements to the market over the medium-to-long term – it is essential that our assessment period is consistent with that intention or our analysis will be biased towards cheaper ‘quick fix’ solutions. We therefore propose to retain our assessment period of 18 years, up to 2035.

Barrier to entry and other competition impacts

1.185. We recognise that uncertainty, the scale of market change and transitional costs might discourage new entry temporarily. We think that this issue should be viewed in the context of the overall programme objectives to improve competitive outcomes for consumers in the long term.

Distributional impacts

1.186. We recognise that our reform proposals will have different impacts on the sectors of the market. We have sought to take this into account in the design of our proposals. For example, we propose a longer switching process for the non-domestic

market (minimum switch period of two working days) to reflect the benefits of a longer objection window to validate any change of occupancy flags raised in the gaining supplier's switch request.

1.187. To account for these impacts, for the non-domestic market as well as for small suppliers, we have included a qualitative assessment within this Outline Business Case and our updated Impact Assessment.

1.188. We note the view from one respondent that switching in the non-domestic market should remain unchanged and be facilitated by existing UK Link and MPRS systems. In our view, retaining these arrangements as well as introducing new systems and processes for the domestic market would increase overall market complexity and would be inefficient, in particular for those market participants that operate in both the domestic and non-domestic markets.

Impact Assessment Question 2 - Do you agree with our policy proposals on objections, cooling off, agents and MCP ID for each reform package?

1.189. Respondents were broadly supportive of the policy proposals described in the September consultation.

1.190. There were a few comments on our proposals. For example:

- One respondent expressed concern that a one-working-day objections process would require suppliers to undertake annulment and switch withdrawal processes on non-working days.
- One respondent cautioned that having different objections windows for the domestic and non-domestic sectors could reinforce complexity.
- One respondent said that, for cooling off, providing consumers with the choice of returning to an old supplier on equivalent terms may be perceived as a hassle.
- The same respondent flagged that an ability to cancel a switch during the cooling off period would result in short billing periods and provide an opportunity for consumers to game the system. This respondent noted that this could lead to an issue of unrecoverable debt should this risk materialise.
- One respondent felt it was unnecessary for the CSS to send early notification to the losing agent on an impending change of supply.

Ofgem response

1.191. We welcome the strong support we have received for our policy proposal on objections, cooling off, metering agents and MCP ID. We have included these proposals in RP2a and in our updated Impact Assessment. For the avoidance of doubt, our proposals are:

- Objections: For RP1 and RP2a, include a one-working-day objections window for domestic consumers and a two-working-day objections window for non-domestic consumers.
- Cooling off: For both RP1 and RP2a, consumers that cancel their contracts during the cooling off period will be given a choice on whether to return to their previous supplier (Supplier A) on equivalent terms to those they would

have been on had they not moved, move to a new supplier or stay with their current supplier (Supplier B). The consumer will remain on their contracted tariff for a period of 30 days after which Supplier B can move them on to a deemed contract tariff.

- Metering agent appointment/deappointment: Remove the requirement under RP2a for CSS to send notifications of a switch to the gaining metering agents and for CSS notifications to be used in place of existing agent appointment and deappointment processes.
- Meter Communications Provider (MCP) ID: For both RP1 and RP2a, the MCP ID will not be included as a new data item in industry arrangements.

1.192. In relation to the points raised by respondents on our objections proposals:

- We think suppliers should make all reasonable attempts to prevent erroneous switches under the new arrangements. We recognise that, in some instances, consumers may seek to contact suppliers over the weekend to ask them to withdraw a switch or undertake an annulment. Our expectation is that most suppliers will have staff available over weekends to respond to consumer contacts and that this will not lead to a material increase in supplier costs. We do not intend to impose any obligations on suppliers to be available to withdraw a switch or action an annulment.
- We also note that having a two speed objections process for the domestic and non-domestic markets may lead to some additional costs for suppliers. However, in setting these periods we have responded to requirements stated by suppliers operating in the non-domestic sector. We do not consider that it is appropriate to disadvantage domestic consumers by setting the objection window to the longer two-working-day period.

1.193. We disagree that offering consumers a choice after they cancelled a contract during the cooling off period would be perceived as a hassle. Our consumer research suggested that consumers would welcome this choice. We think that suppliers have a role to play in making this message as clear as possible and the process hassle free for consumers.

1.194. We note the risk that a short switching period may increase the chance of debt hopping. This is an issue that we reviewed with industry in the development of our proposals. We want consumers to be able to switch supplier, and switch again, as quickly as possible. However, if significant evidence of debt hopping is identified that is operating to the detriment of the market and other consumers, we note that the CSS is being developed with a parameterised standstill period after the switch has taken place. This standstill period would stop a consumer from being able to switch again for a defined period. Our current intention is to set that standstill period as low as possible, probably five days at go-live, and to reduce it to zero when we are confident that this will not lead to consumer detriment. However, the standstill period offers the ability to apply an emergency break to the repeated fast switching should that be necessary for the stability of the market.

1.195. We disagree that it is unnecessary for the CSS to send notifications to the losing metering agents on change of supply. This proposal has received broad support across the industry, including from suppliers and metering agents. We think that these notifications can help to prepare metering agents for the switch, for

example in identifying and cancelling meter exchanges where they are no longer responsible for providing services to a metering point.

Impact Assessment 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?

1.196. We received positive feedback on our approach to assessing the direct benefits of the reforms, with some respondents referring to the analysis as comprehensive, providing a sound basis for decision, and agreeing that the approach and assessment had led us to the right conclusion.

1.197. There were a few areas where respondents helpfully highlighted where some of the analysis or assumptions could be refined. In particular, within our analysis for the saving to highly engaged consumers from having faster access to improved terms, we had made an assumption for the proportion of switches that would not be requested in time to avoid reverting temporarily onto a default tariff. A couple of respondents highlighted that this analysis did not fully take account of the relevant Supply Licence Conditions, and as such the analysis overstated the benefit to consumers.

1.198. A high proportion of responses referenced the announcements that followed our consultation regarding a market-wide price cap on default tariffs. Respondents challenged that our analysis ought to be updated to take account of the impact that the price cap could have on the financial rewards available from switching, as well as on likely future baseline switching volumes. A number of responses raised the concern that such developments in the market might affect our positive case for intervention.

1.199. There were also a few issues raised that suggested some of our analysis may not have been fully understood, as issues were raised that are already accounted for. For example, a couple of responses emphasised the importance that our analysis should account for the expectation that faster switching could place upward pressure on the volume of erroneous switches, or that we should consider how other reforms such as Smart Meters might lead to improvements in the counterfactual. There was also some concern that the expectations for consumer time savings would not be achieved unless we delivered arrangements that enabled consumers to have control over their switch date.

Ofgem response

1.200. Where respondents provided us with feedback on how specific assumptions could be refined, we have sought to adjust them accordingly. For example, we have significantly reduced our assumption for the proportion of switches by a highly engaged consumer that are not requested in time to avoid reverting onto the default tariff (from 60% to 15%). All changes that have been made to our analysis of the direct impacts are set out in detail in Chapter 4 of our updated IA for decision.

1.201. We have reviewed a number of policy announcements and developments since we published our consultation, including those relating to price controls, and

greater flexibility regarding automatic rollover onto default deals. There is no doubt that these developments, in particular a temporary price cap on default tariffs, will have an impact on both the impact of our reforms, and also the underlying counterfactual against which we are assessing the impacts of our reforms. While a price cap is in place there is likely to be a smaller differential between the average default tariff and the cheapest deals in the market. As a result, the financial incentive for consumers to switch supplier will be reduced. Over the longer term, once the price cap has been removed, we might expect the potential for further interventions, coupled with more effective conditions for competition, to have an ongoing impact on prices in the market.

1.202. These potential price variations have implications for two sets of assumptions in our analysis. Firstly, at least while the proposed price cap is in place, but also possibly over the longer term, our assumptions for the savings achieved by consumers that switch are likely to be overstated. These assumptions feed into our estimate of the direct benefits of improved reliability, and our illustrative analysis of the benefits from increased consumer engagement. Second, a reduced financial incentive to switch, or the feeling amongst consumers that they are being protected by price controls, may lead to a temporary reduction in switching activity.

1.203. As Ofgem has not yet designed the price cap, we do not have any information on what level it might be set at. It is therefore not reasonable to attempt to predict at this stage what the price differential in the market will be between the cap and the cheapest deal in the market. Moreover, such assumptions would be at a high risk of being misinterpreted, which would be particularly unhelpful at a time when the draft legislation is still under parliamentary scrutiny.

1.204. In the absence of any information on how the price cap might be designed, we are not able to update the assumptions we have made regarding the savings from switching. While this is not optimal, we are convinced that our conclusions are robust to any reasonable level that price differentials in the market may fall to, either due to a price cap on default tariffs or increased competitive pressure. In our IA, we have used our sensitivity analysis of the monetised impacts, together with our qualitative assessment of the non-monetised benefits, to demonstrate that our decision is not sensitive to fluctuations in the financial rewards that are available from switching:

- Our analysis demonstrates that the conclusions of our quantified analysis are not highly sensitive to the assumptions we make regarding the savings achieved from switching. In our sensitivity analysis, presented in our consultation IA and repeated in our updated IA, we tested the impact of a significant reduction to the savings available to consumers. In this particular test, we chose to reduce the assumed savings by half for the full appraisal period (rather than just while a price cap might be expected to be in place). This analysis demonstrated that even with these much reduced price differentials permanently in place, our conclusions would continue to be robust. The results of this sensitivity analysis are presented in Appendix 1 of our IA.
- The non-monetised benefits of reforms to the switching arrangements are expected to be greater than the monetised impacts. As explained in Chapter 6

of our IA, our reforms are designed with two important strategic goals in mind. Firstly, by replacing the existing fragmented arrangements with a centralised system and governance arrangements will mean the market can more quickly and efficiently adapt to future change and innovation. The market will be more agile as a result. Second, by improving consumers' experiences and perceptions of the switching process, we will be lowering an important barrier to consumer engagement. As the perceived costs of switching are lowered, a greater proportion of consumers will be willing to take action and move away from expensive default tariffs. As this threat of increased switching becomes increasingly credible, suppliers will come under pressure to reduce the price of all their tariffs and provide a better standard of service, resulting in improved outcomes for all consumers – not just those that proactively engage. The benefits to consumers of this increased competitive pressure are expected to outweigh the total costs of the reform. To illustrate this point, the total gross costs we expect to be passed through to consumers, before taking into account any of the monetised benefits, would be equal to around £0.60 each year per household on average over our appraisal period. We are confident that the downward pressure on prices caused by increased competition in the market will more than offset this cost.

1.205. We have also reviewed our assumptions for baseline switching volumes, considering whether the price cap would lead to a reduction in the short term, or if in fact we ought to re-baseline at a higher volume for the rest for the appraisal period to reflect our expectations for increased competition and consumer engagement over the longer term. Primarily due to constraints of the data we hold on the marginal costs to industry of processing switches under the counterfactual, we are not able to vary our baseline switching volumes with any confidence. Although we could vary the direct benefits of the reforms, we would have to consider any changes in cost in a qualitative manner. Further, our assumption for baseline switching volumes are based on them being equal to 2016 volumes on average. Temporary fluctuations in the switching rate are to be expected in future – this need not lead us to conclude that the assumed average over the period should be altered.

1.206. Several of the responses indicated that some of our analysis may have been misunderstood. Where this was the case we have sought to provide further clarity. In particular, we have explicitly factored into our analysis the upward pressure on erroneous switches that will be caused by faster switching. While RP2a is expected to deliver a net reduction in erroneous switches, it is our assessment of this residual risk that has led us to introduce the temporary transitional period for switching speed.

1.207. Our analysis does take account of an expectation that the rate of negative switching experiences will improve in the counterfactual, in the absence of our programme. Though our assumptions are speculative, and intended purely for modelling purposes, they are intended to take account of ongoing reforms and developments such as the rollout of Smart Meters, work of the Erroneous Transfer Working Group, and automatic compensation for consumers when things go wrong.

1.208. We have also sought to clarify through this document that our reforms around switching speed are focused on giving consumers maximum control over when their

switch will be executed. We do not expect that having the option to switch next-day will prevent consumers selecting a later date if that is preferred.

Impact Assessment 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?

1.209. The majority of responses to this question demonstrated a clear understanding of the intentions of this analysis and the approach we had adopted. Most felt that it was a reasonable attempt to illustrate the scale of benefits to consumers that could be achieved.

1.210. Respondents raised similar points to those made in relation to the direct benefits (IA Q3). The most common theme was that consultees were concerned that the analysis needed to be updated to take account of the impact of a temporary price cap on default tariffs.

1.211. A couple of respondents referred to our estimates for the additional costs to suppliers of processing additional switches, and proposed that it was unrealistic to assume that these costs would not be passed onto consumers.

Ofgem response

1.212. As stated above in relation to the direct benefits, we are unable at this stage to make any reasonable adjustments to our assumptions to take account of the proposed temporary price cap on default tariffs. Given the temporary nature of the proposed cap, and that there may be limited overlap between the price cap and the new switching arrangements, the impact on our findings would not likely be significant. This is supported by the sensitivity analysis in our IA, which shows that our reforms would deliver significant net benefits for consumers even if the financial rewards from switching were significantly reduced for our whole appraisal period.

1.213. We accept that suppliers will factor in their operational costs, including switching costs, when setting their prices. We expect that the costs of gaining and losing customers is already built into suppliers' prices, and as such is also implicitly factored into our analysis. In other words, we consider that our assumptions for the savings available from switching already take account of the expectation that the costs of processing switches are largely passed through.

Impact Assessment Question 5 - Do you agree with our assessment of the wider benefits of our reform proposals?

1.214. Of the 21 responses we received to this question, around half were related to issues picked up by other questions above eg statements in relation to our assessment of the direct impacts. Several other responses stated clear support for our assessment of the wider benefits, particularly in relation to the potential for the new CSS to unlock potential future innovation. Two of these supportive statements included a cautionary note that it will be important for the supporting regulatory governance, including the proposed new Retail Energy Code, to be similarly flexible to change in the market.

1.215. Another response in support of our assessment of the non-monetised impacts stated that for the full range of benefits of the reforms to be maximised, there would be value in launching a boosted Energy Switch Guarantee and Switching Charter. Comparisons were drawn with the impact that such a high-profile re-launch of the arrangements had in the banking sector.

1.216. We received challenge from two respondents on the notion implicit in our assessment that retention of the existing industry systems would hold back innovation. These responses raised a question of whether there was a further reform package option which should be considered. The proposed additional reform package would be RP1 with the addition of a centralised address service to match addresses against MPxN's and create a REL for each premises, as proposed for RP2a. We refer to this proposed new reform package as RP1a.

Ofgem response

1.217. We recognise that the existing industry code governance framework may be preventing innovative ideas from coming to fruition. This was highlighted as part of CMA's review of the energy market and Ofgem's Code Governance Review (CGR) work aims to address these concerns. The development of the REC is aligned with Ofgem's CGR work and our view that changes could be made to the code governance landscape to benefit consumers' interest and competition. Where appropriate, the REC could be an opportunity to test and trial some of the CGR proposals as they are further developed, including ways to improve flexibility. We continue to examine options for ensuring that consumers are aware of the benefits of faster and more reliable switching. However, suppliers will themselves promote faster and more reliable switching after its launch. The existing industry-led Energy Switch Guarantee also provides consumer-facing commitments that develop consumer confidence in switching process, and we expect that it will continue to play an important role developing consumer engagement in the market when the new arrangements are launched. The Energy Switch Guarantee signatories currently represent around 93% of the domestic retail market, but we continue to strongly encourage Energy UK to increase the number of participating suppliers and increase consumer awareness of the Energy Switch Guarantee. We have also challenged Energy UK to further strengthen the Guarantee's commitments, and expect that it will be revised to reflect new switching speeds.

1.218. In considering whether it would be appropriate to conduct a full economic assessment of the newly suggested reform package we have taken account of our assessment of the extent to which RP1 delivers against the objectives of the programme and considered how that assessment would change with the addition of a centralised REL database. In our original assessment, RP1 scored below RP2a on reliability, consumer control, encouraging competition and overall cost effectiveness against the full programme objectives. Fundamentally, however, we assessed that RP1 did not deliver adequately on the objective to deliver a simple and robust system architecture design that harmonises business processes across the gas and electricity markets where possible, and is capable of efficiently adapting to future requirements. This was largely down to the conclusion that retention of the existing fragmented arrangements for gas and electricity, with separate systems and

supporting governance arrangements, could hold back future change and innovation in the market.

1.219. The respondents proposing this new reform package argued that the key differentiator between RP1 and RP2a was the impact on reliability. We agree that the introduction of a centralised REL database would be likely to deliver much of the immediate quantified reliability benefits expected from RP2a as a result of addressing the current issues with the quality of industry data linking MPxNs to addresses.

1.220. However, from an Ofgem perspective, RP1, and consequently the proposed new reform package, does not achieve the vital objective of delivering harmonised arrangements that are capable of efficiently adapting to future requirements. RP1 perpetuates the current split in responsibility for registration, with it sitting with suppliers in electricity and shippers in gas. It leaves two separate systems that would need to be updated in parallel for any future changes, and would be subject to separate governance regimes. While each existing system is individually believed to be capable of being adapted to deliver next-working-day switching and further adapting in the future, the underlying technologies are very different, meaning that they have different strengths and different constraints. This means that the process of making changes to switching in the future would continue to be fragmented between gas and electricity, with ongoing duplication of the costs of change and the continuing difficulty of getting two governance processes to move in step. An RP1 based solution would not be able to offer customers a full dual fuel switch with the ability to prevent half a switch going through when the other half is prevented or delayed.

1.221. The objectives we have set out for the Switching Programme need to be seen as a whole package. Making switches go faster, and reducing the number of delayed and failed switches are important direct benefits in their own right, but they are only a part of what the programme is intended to achieve. We believe that it is essential to put in place registration and switching arrangements that will be capable of adapting quickly, efficiently and frequently to support the scale and pace of change we have seen developing in the sector in recent years, largely in response to developments in technology and smart solutions. A continued reliance on the current fragmented systems and governance processes will not deliver that. The addition of a third system (the REL database), with its own governance (neither of the existing governance regimes for switching would be appropriate to cover this dual fuel element of the proposal) would in fact make that future change more complex and more difficult, slower and more expensive to deliver.

1.222. For these reasons we do not believe that this amended version of RP1 would be capable of delivering the programme objectives. Our assessment of RP2a demonstrates that RP2a does adequately meet the full objectives of the programme and that there is a robust positive case for taking this action.

Impact Assessment 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?

1.223. The majority of responses to this question agreed that our assessment of the net impacts for consumers provided a sound basis for a decision on which reform package to proceed with.

1.224. One response challenged our analysis for how much the reforms would cost each consumer on their energy bills once the costs have been passed through by suppliers. Our analysis pointed out that, while this cost is expected to be lower than the savings for those consumers that do engage, those consumers that don't engage may at least in the short term be made very marginally worse off. The response highlighted that our analysis suggested the costs would be passed through evenly by suppliers over the appraisal period, when in fact the costs may be passed through as they are incurred.

Ofgem response

1.225. Our analysis for the annual cost per consumer if the costs are passed through was intended to illustrate that the costs are unlikely to be material for each consumer on an annual basis. It was not intended to be a statement of how each organisation in the market will finance the costs of the programme, or when the costs will be passed through to consumers.

1.226. We agree that the analysis as presented was overly simplistic, missing the important point that if costs are passed through as they are incurred, there could be higher additional costs for each consumer in the transitional years. We have updated our analysis to account for this nuance. We now present the analysis as if the costs are passed through as they are incurred, and present a cost per consumer in the transitional phase and then in steady state. The analysis shows that even in this scenario, the additional costs that may be added to a consumer's energy bill are unlikely to have a material impact on affordability.

July consultation responses

1.227. We received a strong response to the consultation, with 33 responses covering all relevant industry sectors, consumer groups and the service providers themselves. None expressed opposition to Xoserve pursuing a bid to be the CSS, though several raised some concerns. The non-confidential responses are published on the Ofgem website and so only summarised below.

Question 1: Do you agree with the benefits outlined [in the July document]. If so, how significant do you consider these benefits could be for the purposes of implementing more reliable, faster switching? and

Question 2: Are there other benefits that we have not identified?

1.228. Respondents generally agreed with the benefits cited in our July consultation, though several suggested that whilst we had focused primarily on the UK Link systems, the same benefits could also be realised by utilising the existing electricity systems, i.e. MPRS and/or ECOES. Given the degree of overlap in the initial

questions and subsequent responses we have grouped them into broad themes as below:

Simplified solution architecture

1.229. Respondents generally agreed that basing the CSS upon either UK Link or MPRS would require fewer interactions for parties to manage and therefore potentially result in lower cost. However, several parties countered that while development costs may well be reduced, the re-use of legacy systems could drive up ongoing operation costs, for instance in terms of maintenance and incorporating future modifications, as compared to potentially more agile and efficient platforms.

Reduced delivery risk

1.230. Several respondents also considered that the re-use of an existing system allows all parties to leverage existing knowledge and expertise. Risks would also be reduced as, at least for some, there would be no need to integrate with a further system. This benefit is mitigated to the extent that not all parties currently interact with UK Link and/or MPRS, so whilst effort of integration may be lower, timelines may be unaltered. Some respondents pointed to the rigour of development and testing on Nexus as an example of Xoserve's capability to deliver change successfully (albeit acknowledging initial problems and delays).

1.231. Several respondents specifically noted the reduced programme risk resulting specifically from the reduced scope of data migration, i.e. integrating electricity data onto established gas systems or vice versa, being quicker, cheaper and lower risk than migrating data from circa 45 million combined supply points onto an as yet unproven system. One respondent went on to suggest that this could also expedite any future transition from a *thin* to a *thick* CSS model, but did not elaborate on what they envisaged such a thick model to be, or when this could take place.

Investment and cost to serve

1.232. Several respondents noted that UK Link has only recently been replaced and that whilst these costs (quoted by some as being >£100m) are to a large extent now sunk costs, the CSS provides an opportunity to leverage this investment. It was also noted that UK Link and MPRS would in any case need further changes in order to interact with a third party CSS. Consideration could therefore be given to identifying the extent to which development costs of developing UK Link/MPRS in order to provide the CSS would be offset against costs that would in any case be incurred.

1.233. Some respondents suggested that allowing an open field for potential service providers would ensure greater competition in the procurement process and better options for the tendering organisation. In particular, they considered that this should lead to more robust and cost effective solutions.

Ofgem response

1.235. Whilst our July consultation had focused primarily on the UK Link system this was prompted largely by the known issues that may inhibit its use, and was not intended to preclude any option of alternatively using the MPRS, or indeed any other

system. Following consideration of responses to the consultation we commissioned an independent technical assessment of the capabilities of both UK Link and MPRS to form the basis of the CSS. In light of this technical assessment and earlier consultation responses, we have concluded that there are no inherent *technical* obstacles to either UK Link or MPRS being used as the basis for the CSS and that either might offer significant benefits in terms of reducing costs and delivery risk.

Question 3: Do you see any particular risks or disadvantages? If so, please outline them.

1.234. The majority of parties acknowledged that there would be risks in utilising either the UK Link or MPRS system, though several tempered this by suggesting that this would be true of any programme of this scale, whichever service provider was chosen. Some respondents also considered that it was too early to judge the relative compatibility of UK Link with CSS the requirements and that further analysis was required. The specific comments were broadly grouped around the following themes:

Track record

1.235. Several respondents acknowledged the rigour that had gone into UK Link replacement design and testing as part of Project Nexus development, which resulted in a successful implementation. However, others pointed to the fact that Project Nexus was delivered late and over-budget. Some respondents suggested that this could be mitigated if Xoserve were required to work with an experienced delivery partner, as had been the case in the latter stages of Project Nexus. Conversely, one respondent suggested that there may be benefit in Xoserve providing its own experience and expertise to any third party/new platform if UK Link is not chosen to provide the CSS.

Market coverage

1.236. Some respondents noted that UK link currently only serves a subset of the market, so whilst there may be fewer interactions required for gas operators, this was not true of electricity parties. Some metering agents also raised concerns at their exclusion from existing governance provisions.

Solution architecture

1.237. Whilst cited as a benefit by many, several respondents also noted that UK link provides wider market functions such as feeding into gas balancing and settlement, and considered that the development of CSS must not impinge upon these core services or lead to a degradation of service. It was suggested that there may be increased materiality of risk in having so many services provided within a single potential point of failure.

Impacts upon procurement

1.238. Some respondents suggested that some potential service providers could be deterred if they felt that existing systems or service providers were being positioned as a preferred option.

1.239. One respondent, noting their own direct experience of procuring systems, suggested that having a significant liabilities within a contract with a third party does not of itself guarantee delivery. They went onto suggest that it is more important to have a demonstrable culture of delivery, domain knowledge and a stake in the industry and therefore a successful outcome for the project.

Ofgem response

1.240. We have have concluded that there are no inherent technical obstacles to either UK Link or MPRS being used as the basis for the CSS. As set out above, either could offer significant benefits in terms of reducing costs and delivery risk as compared to an entirely new platform, though neither would be without risk or negate the need for substantive further investment. Therefore whilst neither system should be ruled out, nor do they present a sufficiently compelling option to negate the need for a full and open procurement process. That process must allow existing systems to be considered fairly alongside any new build options. We will work with DCC to ensure that the procurement process, and the evaluation criteria, do not unfairly benefit or penalise existing systems or discourage new entrants or existing providers from bidding.

Question 4: Under the current Xoserve CDSP governance do you believe there are any substantive obstacles to Xoserve's ability to participate in a competition? If so how could these obstacles be overcome?

1.241. Respondents agreed that the existing governance and funding arrangements would need to be addressed as they would currently act as barriers to Xoserve's ability to participate in the tender exercise, and to its subsequent development of a CSS solution. No such governance obstacles were highlighted in relation to the MPRS.

Funding

1.242. Several respondents, including Data Services Contract (DSC) parties and particularly the GTs, were keen to identify how the costs would be recovered, suggesting that only the recipients of the CSS services should pay for them. However, others noted the possibility that their future DSC contributions may reduce as a result. One supplier respondent considered that even thinking as a DSC party, funding the costs of a bid would be a good investment. The GTs were also keen to understand how any revenues from CSS would be treated, and impacts upon their regulatory asset value (RAV).

Governance

1.243. Respondents generally agreed with the governance constraints identified in our paper. Most felt these should be surmountable, though some pointed out that those constraints were intentional, having only recently been introduced. Views were mixed on the most suitable way to address them, but no new options were put forward beyond those we had identified in the paper, i.e:

- pursue the CSS as a third party contract;

- amending the existing DSC to encompass CSS; or,
- develop a subsidiary business.

Ofgem response

1.244. Whilst acknowledging the concerns of some respondents regarding the confines of the current CDSP arrangements and the safeguards that were consciously put in place to safeguard parties from extraneous risk, we do not consider that these should preclude Xoserve from extending its role. However, should modifications be made, for instance to the limited scale of third party services that may be offered, it may be appropriate to consider alternatives that preserve the original intention of safeguarding the interests of DSC parties, without unduly fettering Xoserve's ability to evolve and develop its business. Whilst these are largely a matter for Xoserve and its stakeholders to pursue, we are open to working with those parties to ensure that any governance constraints that might make it difficult for it to bid for, or operate, the CSS are addressed effectively.

1.245. An expanded role for the MPRS would also require the approval of relevant stakeholders, though we understand that this is a largely commercial consideration and would not be subject to our purview in the same way as Xoserve's governance.

1.246. Whichever route, if any, is chosen we remain of the view that any expansion of Xoserve's role beyond the current CDSP must demonstrably satisfy the following criteria:

- UNC/DSC Parties should benefit from any diversification;
- the arrangements should not place disproportionate risk on UNC/DSC Parties;
- standards of service under the UNC/DSC should be maintained; and
- Xoserve's CDSP role should not give it any undue competitive advantage in a contestable activity.

1.247. Whilst some respondents considered that these criteria are open to interpretation, it is not our intention that they be overly prescriptive. For instance, the benefits to existing UNC/DSC parties could be in the form of reduced DSC charges as suggested by some respondents, or improved service provision resulting from lessons learnt elsewhere or synergies with wider market functions. We also agree with the respondent who suggested that the criterion regarding benefits could appropriately extend to consumers.

Appendix 2 – Impact Assessment

2.1. The findings of our IA have been summarised in Chapter 4 of this document. The full IA has been published at the following link.

[Final Stage Impact Assessment](#)

Appendix 3 – End to End Switching Design

3.1 This appendix provides information on a series of products that together form the End to End (E2E) Switching Design.¹⁰⁰

Scope of the E2E Switching Design

3.2 The E2E Switching Design includes all the processes, data, systems and services that are required to deliver the programme's objective of reliable, fast and cost effective switching. These products include an overview of the consequential changes required to existing end to end arrangements.

3.3 The E2E Switching Design sets out the processes to be undertaken by all of the relevant actors, including the new CSS. The scope of the design covers all aspects of all possible switching journeys and as well as the associated activity that supports a dynamic energy retail market.

3.4 The design provides information to industry so that they can understand and plan for the changes that they will need to make to their systems and processes to enable the new switching arrangements.

3.5 Collectively, the products in the E2E Switching Design also provide the basis for developing the content for the regulatory framework, the CSS detailed design and the procurement specification(s). In addition, these products will enable development of the design for the transition approach to the new arrangements.

Developing the E2E Switching Design

3.6 The E2E Switching Design is captured in a number of products that have been stress tested to ensure that collectively they deliver the new arrangements in a concise, cohesive and holistic manner. They have been developed using input from stakeholders, via the Design Forum and other forums eg. EDAG. Through our stakeholder engagement we have tested the products to ensure that, collectively, they are coherent, fully aligned and complete. This activity was necessary to ensure the DCC had a complete design against which to develop the procurement specification and the CSS detailed design.

3.7 With any significant system re-design project, there is a residual risk that the design is not complete until it is tested. DCC undertook a Design Proving Project (DPP) that used a tool to test the 'paper' design through an automated product. The output from the DPP will be taken into account to ensure the design remains coherent and robust, with relevant recommendations being integrated into the final products.

¹⁰⁰ We expect to publish the E2E Switching Design products referenced in this appendix shortly.

3.8 The E2E Switching Design has been informed by a number of policy positions that were established throughout the Blueprint phase. These can be categorised into two groups. The first are policies that relate to the energy suppliers' relationship with the consumer, for example the process where a domestic consumer has decided to cool off; the second set are policies that relate to the design and functionality of the CSS eg. the operation of standstill periods.¹⁰¹

3.9 The DLS phase of the programme has added further detail to the high level policy positions and process design produced during the Blueprint phase. The E2E Design Workstream was established in the DLS phase to deliver the detailed requirements of the 'end state' switching arrangements.

E2E Switching Design product summary

3.10 The full list of E2E Switching Design products are described in Table 5 below.

Table 5: E2E Switching Design products

Reference	Title	Description
D-4.1.2.	E2E Detailed Design Models*	A representation of the end to end switching design depicting the processes, the actors and the data model of the switching arrangement. The design covers all the activities in relation to a switch from the customer's initial engagement with either the energy supplier or a PCW through to the switch request being executed and completed. The design also sets out process for the creation and demise of a meter point and the procedure for an initial supplier registration of a meter point.
D-4.1.3.	E2E Data Architecture and Data Governance*	A key objective of the programme is to make the switching process more reliable for consumers. Maintaining and processing accurate data in a timely manner is fundamental in achieving this aim. The data architecture and data governance model sets out where data will be 'mastered' and referenced, and also sets out the arrangements for the management of the REL.
D-4.1.4.	E2E Non Functional Requirements	The non-functional requirements (NFRs) set out the required behaviour and attributes of the systems involved in the new end to end arrangements. The NFRs underpin the performance attributes of the various systems including (but not limited to) their respective

¹⁰¹ For further detail on these policy positions, see [Delivering Faster and More Reliable Switching: proposed new switching arrangements](#) – Appendix 3

		capacity (volumetrics) availability (downtime) responsiveness (turnaround time) and adaptability (flexibility). The NFRs are based on the ISO-25010-2011.
D-4.1.5.	E2E Solution Architecture	This product sets out the constituent elements of the E2E Switching Arrangements in terms of IT systems, services and interfaces to ensure the business processes can be delivered as specified in the Detailed Design Models (D 4.1.2). It will describe these IT systems, services and interfaces at a high level and demonstrate how they will deliver the functional, security and non-functional requirements that will be defined in other E2E Design products.
D-4.1.6.	E2E Operational Choreography	This document sets out the processing time periods for key events (system transactions) for the CSS and supporting systems required to support our preferred 'to be' arrangements. The product will identify those transactions where a prescribed timeframe will be necessary, including those that must be undertaken in real-time.
D-4.1.9.	E2E Switching Arrangements Service Management Design	This product describes the requirements and design for service management across the E2E Switching Arrangements based on current ITIL standards.

* These products are delivered via ABACUS

Appendix 4 – Delivery design

4.1 This appendix provides information on a series of published documents that together form the DLS phase delivery products.¹⁰²

Developing the DLS delivery products and scope

4.2 The DLS phase delivery products build on our Blueprint phase work. In the DLS phase we identified the need to further develop our approach for various areas of delivery. In particular we have identified: our preference for a 'top down' approach to test design, the need for resources to be retained for a post-implementation period, and the requirement for an integration function to oversee the readiness of market participants for design, build and test activity and ultimately go-live.

4.3 Our aim is to create the highest likelihood of the end-to-end solution being successfully brought to market, within the parameters of cost and efficiency, time and quality set by the programme governance mechanism.

4.4 To achieve this, we have undertaken work to:

- Produce a plan for activity, principally undertaken in the DBT phase of the programme. This includes the choreography of activity around go-live of the new arrangements and the period following go-live leading up to transition to business as usual; and
- Provide an appropriate level of certainty for all market participants on the activity that they will need to plan for the DBT phase.

Summary of delivery products

E2E Transition Plan

4.5 The E2E Transition Plan sets out a staged approach to managing transition to the new switching arrangements. Delivery of the new switching arrangements (RP2a) will be conducted over five transition stages (including a preliminary stage for improvement of existing data systems and a post-implementation stage after go-live) throughout the DBT phase of the programme, moving to the next transition stage once they have met defined exit criteria (which will be developed and communicated to stakeholders in advance of DBT phase, but may be modified during and up-to go-live).

4.6 The transition stages (with the exception of the post-implementation stage) will require either the deployment of new infrastructure or interfaces between the CSS and existing data services (such as those operated by Xoserve or MPAS

¹⁰² The DLS phase delivery products referenced in this appendix can be found at the following link: <https://www.ofgem.gov.uk/publications-and-updates/e2e-delivery-documents>

providers), or the creation of infrastructure enabling market participants such as shippers, suppliers and supplier agents to interact with the CSS.

4.7 This product also sets out in more detail our proposed approach to dealing with in-flight switches. Our current intention is to require suppliers to capture and hold switches at a certain date before go-live. This will require gaining suppliers to develop a mechanism of business processes to hold switches which have not been objected to by the losing supplier and to feed these switches into the new switching arrangements after go-live in a fashion that does not endanger the new switching processes.

E2E Design and Build Plan

4.8 All parties and service providers affected by the new switching arrangements will have a varying scale and complexity of change to implement; spanning both technical and business change aspects. The E2E Design and Build Plan defines the roles of differing market participants and the design and build activity that we expect them to fulfil in the DBT phase.

4.9 The product is intended to provide sufficient guidance and direction to enable all industry parties to plan their design and build activities, within the context of the wider DBT phase, and to ensure that the physical realisation of the switching arrangements meets the requirements and specifications of the programme as defined in the DLS phase.

E2E Testing Plan

4.10 The E2E Testing Plan product sets out a proposed approach for this testing framework, identifying the test phases that we expect market participants to undertake and how responsibilities for testing and oversight of testing will be realised leading up to, and during, the DBT phase. This builds on our Blueprint phase testing plan, which detailed the need for an overall strategy for testing for all market participants to be established well in advance of the design and build stage.

4.11 The product clearly identifies the necessary test phases leading up to go-live, identifying responsibilities during these test phases and parties that will be responsible for producing test environments and test simulations. Market participants should be able to identify their responsibilities for testing during the DBT phase and to develop their own individual testing plans for activity in the DBT phase using this product.

E2E Integration Plan

4.12 An integration function was identified in our Blueprint phase work as necessary to ensure the coherent integration of the component of the Switching Programme. Experience from other projects, such as Nexus, has shown that poor preparation by individual contributors for the end solution can cause additional cost and delay to delivery of large, multi-party projects.

4.13 Integration roles go further than just providing assurance. They proactively intervene to ensure that contributors are ready for each stage of implementation,

and provide tools such as test environments to enhance participants' design and build activity.

4.14 The E2E Integration Plan outlines the role for integration functions within the programme and how they fit within overall programme governance. In particular, two key functions are identified: a core and CSS System Integration function, and an end-to-end Programme Co-ordinator function. The interaction of the integration function and other programme assurance functions will be confirmed within the D-8.2 Governance and Assurance Plan for DBT, which will be published separately from this document.

E2E Post-Implementation Plan

4.15 The E2E Post-Implementation Plan is intended to provide sufficient guidance to enable market participants to plan their post-implementation activities to ensure that the end-to-end switching arrangements achieve the required performance and stability as early as possible after go-live and that transition to steady state service management and governance is effective and seamless.

4.16 To achieve this, the product sets out the minimum requirements and expectations on all parties (including DCC) for the period following go-live and the 'chain of command' for resolving issues in this period. We expect that all parties should plan for the post-implementation period and ensure that resources (likely to be drawn from teams formed to undertake DBT activity) are retained for an appropriate period after go-live. This product also establishes how criteria to move from go-live to a steady state will be determined (noting that these criteria will only be fully established in the DBT phase).

E2E Data Migration Plan

4.17 Each of the transitional stages outlined above will require data migration activities between existing services and the CSS to enable the operation of the new arrangements. The migration of data must be aligned to the development and implementation of new service functionality and interfaces.

4.18 The E2E Data Migration Plan outlines the data migration activities that will take place at each of the transitional stages identified in the E2E Transition Plan. To achieve this we have conducted a full analysis of the end-to-end logical data model, identifying whether migration is required for each data element, and if so where the data will be migrated to and from.

4.19 Where data is migrated into the CSS, the detailed approach to migration will be covered by the CSS Data Migration Plan product, which will be developed ahead of Design Baseline 4. A detailed approach to migration of data that is migrated to sources other than the CSS under the aegis of the Switching Programme, including governance of the migration, will be developed during the Enactment phase.

Data Improvement – Address Database Remedy

4.20 Poor quality address data is a major cause of failed and delayed switches. To reduce this risk, the CSS will contain an externally procured source of high-quality address data.

4.21 The Address Database Remedy product sets out the criteria for the procurement of this address data source, which will be utilised with the CSS to derive an improved REL address data item for registered gas and electricity meter points. It also sets out the criteria for the data cleansing and migration mechanism which will improve address data prior to the launch of the CSS and as an ongoing steady state service.

Further development of delivery requirements

4.22 We intend to build on the analysis contained within these products to develop a more detailed plan for activity in the DBT phase.

4.23 To achieve this, we will:

- Further develop our transition analysis, mapping the change events identified as part of the Design workstream and the components of the solution architecture to transition stages identified in our E2E Transition Plan, to produce a comprehensive, detailed plan of transition activity;
- Further develop our data migration analysis, in conjunction with the CSS data migration work, to ensure that data migration activity is fully mapped and allocated to transition stages; and
- Fully map onto a timeline detailing our expectations for delivery activity in the DBT phase. This will be delivered during the Enactment phase and in advance of DBT.

Success criteria

4.24 Continual assessment of the programme's status against criteria for delivery will be made from the end of the Enactment phase until the adoption of the new switching arrangements as business as usual (or transition to a 'steady state'). These criteria will be determined in advance of DBT.

4.25 The detailed timeline for DBT will identify review points and quality gates to assess the readiness of market participants and the programme as a whole. At the end of each transition stage, a decision will be made based on Go/No-Go criteria. These criteria will be set in advance of commencement of DBT phase and will be designed by the System Integration function, working with the E2E Programme Co-Ordination and Programme Assurance functions where necessary. These functions will also decide on the readiness of individual market participants to move out of various test phases. This will be based on their own assessment of test phases, the results of self-assessment by market participants, and an assessment of risk.

4.26 Ultimately, the decision whether to advance to a new transition phase, including the 'go-live' decision and the decision to move to business as usual, will be

taken by the SRO, acting on advice from programme governance and resources such as the Integration, Co-Ordination and Assurance functions.

Expected activity by stakeholder group

4.27 Market participants should consider the suite of products and assess the impact on their business, to ensure that they are ready for activity in the DBT phase. It is highly likely that all participants will need to take action well in advance of the commencement of the DBT phase in order to be ready to deliver infrastructure supporting the switching solution.

4.28 Table 6 below provides a high-level summary of the activities that are expected of participants in the DBT phase and which products they should consider in particular. These products contain further analysis which will enable those participants to identify their responsibilities in closer detail. However, this is not exhaustive and we would encourage participants to read all products.

Table 6: Expected activity by stakeholder group

<i>Stakeholder Group</i>	<i>Activity Required</i>	<i>DLS Phase Delivery Products to Consider</i>
<i>Suppliers</i>	Design and build activity for interfaces with CSS Development of Testing plan for DBT Development of approach to managing in-flight switches Readiness for correspondence with E2E Co-ordination function	E2E Transition Plan E2E Design and Build Plan E2E Testing Plan E2E Post-Implementation Plan E2E Integration Plan
<i>GTs, Xoserve</i>	Design and build activity for interfaces with CSS Development of Testing plan for DBT Migration of data into existing Industry services Migration of data into CSS Readiness for correspondence with Core Integration function	E2E Transition Plan E2E Design and Build Plan E2E Testing Plan E2E Post-Implementation Plan E2E Integration Plan E2E Data Migration Plan
<i>DNOs, Gemserv, St Clements</i>	Design and build activity for interfaces with CSS Development of Testing plan for DBT Migration of data into existing Industry services Migration of data into CSS Readiness for correspondence with Core Integration function	E2E Transition Plan E2E Design and Build Plan E2E Testing Plan E2E Post-Implementation Plan E2E Integration Plan E2E Data Migration Plan
<i>Shippers</i>	Design and build activity for interfaces with CSS Development of Testing plan for DBT Readiness for correspondence with E2E Co-ordination function	E2E Transition Plan E2E Design and Build Plan E2E Testing Plan E2E Post-Implementation Plan E2E Integration Plan

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<i>DCC</i>	Design and build activity for interfaces with CSS Development of Testing plan for DBT Migration of data into existing Industry services Migration of data into CSS Readiness for correspondence with Core Integration function	E2E Transition Plan E2E Design and Build Plan E2E Testing Plan E2E Post- Implementation Plan E2E Integration Plan E2E Data Migration Plan
<i>Code Bodies</i>	Development of Transitional Requirements to provide regulatory backstop for Transition, Integration and Testing activity	E2E Transition Plan E2E Design and Build Plan E2E Testing Plan E2E Post- Implementation Plan E2E Integration Plan E2E Data Migration Plan
<i>Providers of Procured Services</i>	Understand the requirements for services detailed in Procurement Plans.	E2E Testing Plan E2E Integration Plan E2E Data Migration Plan

Appendix 5 – Reform package summary spreadsheet

5.1. We have published the reform package summary spreadsheet alongside this Outline Business Case. The reform package summary spreadsheet has been updated following the September consultation. It can be found at the following link:

https://www.ofgem.gov.uk/system/files/docs/2018/02/reform_package_summary_spreadsheet.xlsx

5.2. The spreadsheet has several functions:

- It describes the key design and delivery features of RP1, RP2a, RP2 and RP3.
- For RP2a, which is our chosen reform package, the description of the changes and requirements form part of the definition of Design Baseline 3.
- It describes the main impacts for stakeholders from each feature of RP2a.

Appendix 6 – RP2a description

6.1. This appendix describes the features of RP2a, highlighting differences from the current arrangements. In the Strategic Outline Case the current arrangements were labelled RP0 – the 'do nothing' scenario.

6.2. Currently, separate switching arrangements exist for electricity and gas. They are defined, for electricity, in the MRA and, for gas, in the UNC and the SPAA. They are supported by the Meter Point Registration System (MPRS) run by distribution network operators (DNOs and IDNOs) and the UK Link system run by Xoserve on behalf of gas transporters (GTs and independent Gas Transporters). In essence MPRS and UK Link provide the following sets of functionality:

- a. Switching: recording the registered supplier and, for gas, the shipper responsible for each meter point
- b. Settlement: recording the parameters which control the way in which each meter point is treated in the wholesale settlement process
- c. Network charging: recording the parameters which control the way in which each meter point is treated in the network charging process
- d. Metering: recording the type of metering and details relating to metering assets at each meter point
- e. Agent appointments: recording the agents appointed by the supplier / shipper to perform defined functions at each meter point

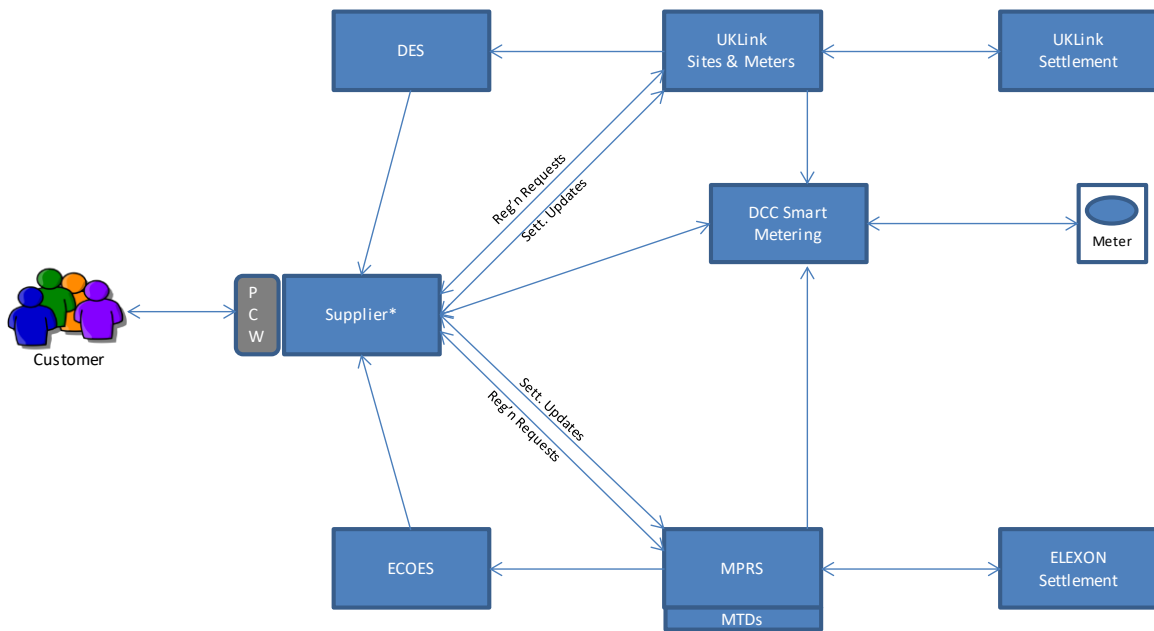
6.3. The current solution architecture supporting the existing arrangements is shown in Figure 24 below. In addition to MPRS and UK Link, this shows:

- a. Supplier (and shipper) systems: in addition to data supplied to MPRS and UK Link by the network businesses, other data – including switching requests – is submitted by suppliers or shippers and their agents. In some cases suppliers use intermediaries such as PCWs as channels for conducting sales and collecting data.
- b. ECOES and DES: these systems provide enquiry services which allow authorised users to retrieve meter point data, for example to retrieve the settlement parameters associated with a meter point which they are in the process of gaining. Under the terms of the CMA remedy these datasets will also be made available to PCWs via an Application Programming Interface (API).¹⁰³
- c. DCC Smart Metering: the transfer of commands to smart meters and data from them is managed by DCC using its communications and data services. DCC uses data from MPRS and UK Link to determine who is authorised to access each smart meter.

¹⁰³ An API is a computer to computer means of enquiring into data. In this case it allows PCWs to retrieve ECOES / DES data by supplying details of a site where the customer is interested in switching.

- d. Settlement systems (Elexon and UK Link): these systems determine the liabilities of each supplier / shipper for wholesale energy charges, based on settlement parameters and registration data.

Figure 24: Current solution architecture

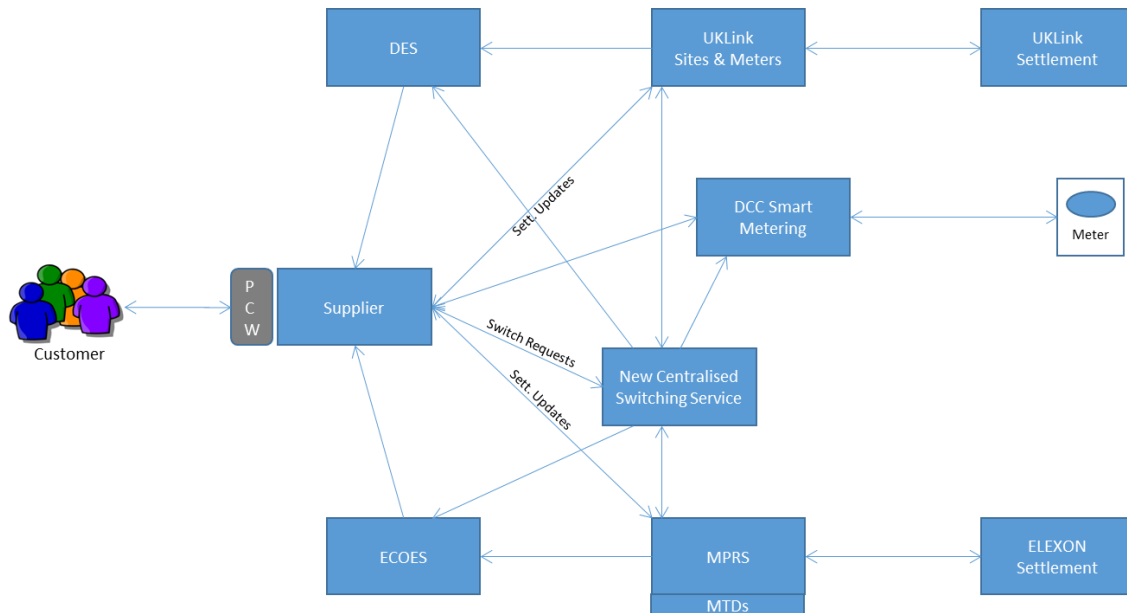


* In gas, shippers submit registration requests to UKLink

6.4. RP2a will implement a CSS to replace the switching functionality currently provided by MPRS and UK Link. However, while the switching functionality in these systems will be turned off, MPRS and UK Link will continue to provide functionality related to settlement, network charging, metering and agent appointments. Under RP2a, ECOES and DES will be retained to provide enquiry and API access to meter point data mastered in MPRS, UK Link and CSS.¹⁰⁴ The solution architecture to support RP2a is shown at Figure 25 below.

¹⁰⁴ Xoserve and Gemserv are currently evaluating the potential for ECOES and DES to provide a harmonised enquiry service. Pending a decision to proceed with this investment we will continue to refer to ECOES and DES as providing the enquiry services.

Figure 25: RP2a solution architecture



6.5. Under RP2a, CSS will support the following features:

- a. The switching process will be managed by suppliers. In gas, this represents a change from the current arrangements which are shipper-led. All switching-related interactions with CSS will be undertaken by suppliers.
- b. Suppliers will submit switch requests to CSS for validation and testing for objections. Immediately following validation, the losing supplier will be invited to object. If the losing supplier does not object by the end of the objection window (one working day for domestic customers, two for non-domestic), relevant industry parties will be notified that the switch has been confirmed and will take effect on the specified date. If an objection is raised and the gaining supplier and consumer still wished to proceed with the switch, the reason for the objection will need to be resolved and the gaining supplier will submit a new switch request.
- c. Switch requests will be accepted at any time of day and up to 28 calendar days ahead of the chosen switch date. A parameterised standstill period (eg. currently assumed to be five calendar days at go-live) will be set to mitigate data integrity risks that might arise from multiple switches in quick succession. The data integrity risks differ between traditional and smart meters (in the case of smart meters, configuration data can be retrieved remotely without data exchanges between parties) so separate standstill periods will be maintained (although both parameters may initially be set to the same value). We expect that the standstill periods would be reduced over time and – at least for smart meters – be reduced to zero within the medium term.

- d. CSS will record a premises-served address (referred to as a REL to allow for street cabinets and other meter points which do not have a postal address), linked to a standard GB address list. DCC will be obliged to establish data stewardship activities (eg. applying updates made to the standard GB address list and requiring network operators to update plot addresses). This will reduce the number of instances where a switch fails because the consumer cannot identify their address from the list presented to them. All meter points at a location will be linked to the same REL.
- e. Where requested, dual fuel (and other multi-switches) will be executed on the same date using a one-fail-all-fail option.
- f. For each meter point, only one valid switch request may exist at any time. This avoids the risk of customers becoming confused as a result of – possibly inadvertently – entering into two contracts in close succession.
- g. CSS will provide suppliers with tools to manage invalid switch requests which might result in an erroneous switch. The gaining supplier can submit a withdrawal transaction (eg. if they discovered they had entered an incorrect meter point on the switch request). On the request of a customer, the losing supplier may submit an annulment request if the consumer is confident that they have not entered a contract with the gaining supplier. Losing suppliers will be under regulatory obligations to retain evidence of the customer’s request to intervene and prevent an erroneous switch. CSS will be developed such that the annulment capability can be turned off easily if it is decided, following due process, that the annulment feature can be retired.
- h. If an erroneous switch occurs the gaining and losing suppliers will need to follow the established procedures for identifying the erroneous switch and arranging for the consumer to be repatriated to their original supplier. Repatriation will be achieved by processing a new switch request (which will be coded to show it had arisen as a result of an erroneous switch).
- i. Agent appointments will continue to be managed in MPRS and UK Link. The agent IDs associated with each meter point will be reflected in CSS which will issue notifications of confirmed and/or executed switches to the incumbent agents. These notifications will be for information only and would not constitute a de-appointment notice.
- j. Consumer type (domestic or non-domestic) will be included in the switch request, recorded in CSS and made available via ECOES/DES. This will help suppliers and PCWs to determine the tariff to be offered, will assist in verifying a MPAN or MPRN (MPxN), and will determine which objection parameters should be applied.
- k. DCC uses registration data to verify the authorisation of a party requesting access to a smart meter. Currently this data is transferred from MPRS and UK Link in batch RDP files but in future CSS will provide immediate notifications of switches (at switch validation, confirmation and execution) making it possible for the gaining supplier to reconfigure a smart meter by the time the switch becomes effective (i.e. midnight). However a change will be required to DCC’s smart metering system to ensure that, in future, no commands can be transported to the meter before the switch is executed as this presents a risk if comms to the meter is lost.
- l. Where a smart meter is installed, the switch read will be taken from the daily read log recorded at midnight on the switch date. This will be the meter read used when calculating closing and opening bills, and for settlement. For other

- meter types, the current arrangements for obtaining a switch read will endure.
- m. CSS will provide near real-time updates to ECOES and DES so up to date. switching data is available for industry enquiry purposes. CSS will pass information to ECOES and DES relating to all switch requests that have been validated, confirmed or executed. CSS will also pass the REL address to ECOES and DES (the meter point address mastered by MPRS / UK Link will also be accessible for enquiry). Agent IDs will be passed to ECOES and DES from MPRS / UK Link (not from CSS).
 - n. CSS will be need to support a variety of reporting requirements including operational reporting (to support performance management of switching) and a market reporting to support regulatory activities by Ofgem.

Objections

6.6. The process of testing for objections is a central element of the CSS. Objections testing has a direct impact on the time taken to complete a switch and, furthermore, because it relies on action from the losing supplier it represents a source of potential friction in what, otherwise, is a gaining supplier-led process.

6.7. In our initial reform packages (in RP2 and RP3) we proposed that objections testing should employ an 'instant reactive' approach. This would have required the losing supplier to respond immediately to a switch notice and – within the conditions set out in the Supply Licence - advise whether or not they objected to the switch. If they failed to respond within a pre-defined short window the switch would proceed.

6.8. A key benefit of the 'instant reactive' approach is that it would allow CSS to confirm to the gaining supplier whether the switch would proceed within a very short space of time. In turn, this would allow the supplier to provide confirmation to the consumer – if they wished to – while the consumer was still at the point of sale. Using this approach, a switch could take effect by the start of the next calendar day. However, the 'instant reactive' approach would only deliver full benefit if all suppliers were able to respond to invitations to object at any time of day or night (i.e. 24x7).

6.9. Confirming a switch while the consumer is still at the point of sale is attractive. However the costs of implementing the 'instant reactive' approach are considerable. To mitigate these costs, particularly those associated with 24x7 operation, RP2a has an objections window which is specified as a small number of working days: one working day for domestic customers and two working days for non-domestic customers. This provides flexibility for individual suppliers to determine their hours of operation. As a losing supplier, they will not be required to respond to objections out of working hours. But as a gaining supplier, they will be free to decide their sales hours (eg. to allow online sign-up using their chosen PCWs at any time – 24x7).

6.10. During the lifetime of the new CSS, requirements may emerge for accelerated switching. This could be achieved by adjusting the objections window (eg. to change from working to calendar days) or shifting to the instant reactive objections model. CSS will therefore be designed such that the choice of the objections testing model and the length of the objections window are parameterised. We recognise that

suppliers' systems may not support the full range of CSS' capabilities so any changes to the objections model or the objections window would be subject to a separate consultation.

6.11. A further complexity of the objections testing process concerns Changes of Occupancy (CoO). Objections relate to the circumstances of the consumer at a meter point and if there is a CoO event it might be assumed that no objection should be raised. In practice, making such an assumption would ignore the practical challenges associated with customers who declare a CoO as a way of avoiding exit payments or other contractual restrictions. We have concluded that it would be safer to allow the losing supplier the opportunity to object in all cases. Where a CoO has been declared, the invitation to object will show this. In such cases, the losing supplier will only be permitted to object where they have good reason to believe that no CoO has occurred and one or more conditions for objecting exists. The losing supplier will be required to retain evidence to support their conclusion that no CoO had occurred.

6.12. Recognising that regulatory changes may arise in future, the CSS will be designed to allow the objections process and the CoO feature to be turned off without the need to undertake software modifications to CSS. Any change to the way that objections are processed will only be implemented following completion of the modifications process set out in the REC or other Code.

Address data

6.13. One of the main data issues associated with the current switching arrangements concerns address data. A range of address-related issues is experienced:

- a. Customers are unable to locate their address on the drop-down list of addresses offered on a switching website and fail to complete a switch
- b. A different address is shown for the gas and electricity meters at a single premises
- c. The address shown against a particular meter point is incorrect: potentially a 'crossed meters' situation exists
- d. Customers pick the wrong address from a drop-down list: the erroneous switch avoidance features (withdrawal and annulment) are available to allow suppliers to intercept a potential erroneous switch.

6.14. While switch requests submitted by suppliers will specify the MPxN they wish to gain, suppliers – in most cases – ask potential customers their address as a means to determine the MPxN. CSS will be required to undertake the following activities in relation to address data:

- a. Two addresses will be maintained for each meter point: the Meter Point Location (MPL) address and the REL address. Network operators will be responsible for maintaining the MPL in UK Link / MPRS and CSS will master the REL. The REL address is the address that consumers should recognise as their postal address.
- b. When a new meter point is created, CSS will try to match the MPL address to a list of standard GB addresses provided by an Address Service. If a match is

- found, CSS will record that address as the REL address. It will also record a 'quality of match' indicator (addresses with a low quality indicator will be subject to periodic re-matching to seek a better quality address, for example as a site moves from having a plot address to a postal address).
- c. In some cases the MPL and the REL address differ (eg. corner properties with the MPL in one street and the front door in another). In these cases suppliers may provide the REL address to CSS as a manual over-ride. CSS will match this to the standard GB address list and store the 'manually entered' REL address rather than the REL address derived from the MPL address.
 - d. Updates to the standard GB address list (eg. re-zoning of post codes) will be passed to CSS and used to update the REL address.
 - e. Data captured by DCC regarding the meter points linked to a smart meter comms hub will be made available to CSS. This will enable CSS to validate the matching of gas and electricity meter points at a specified address.
 - f. CSS will produce a variety of routine and ad hoc reports to monitor address quality and highlight exceptions (eg. addresses which have had a plot address for an extended period). Personnel managed by the CSS operator will be responsible for these data stewardship activities.

Changes to existing Central Data Services

6.15. The existing Central Data Services comprise UK Link, MPRS and the DCC's smart metering systems plus the enquiry services ECOES and DES.

6.16. The changes required to UK Link and MPRS are as follows:

- a. Details of newly created or terminated meter points will be provided to CSS via a synchronisation process. Changes to certain data fields (eg. Green Deal indicator, agent IDs, meter point status) will also be synchronised to CSS.
- b. The switching functionality in UK Link and MPRS will be removed or turned off. CSS will provide information on changes to the registered supplier and shipper and to other data fields (eg. domestic consumer indicator) to UK Link and MPRS via a synchronisation process.
- c. In gas, the role of the Meter Asset Manager (MAM) will be split into the separate roles of Metering Equipment Manager (MEM)¹⁰⁵ and Meter Asset Provider (MAP). MAPs will be notified of switches thus facilitating their ability to manage meter assets.
- d. In electricity, the MAP ID, the meter serial number (MSN) and date of installation will be maintained in MPRS (rather than in ECOES as currently). Transferring these update functions to MPRS will simplify the synchronisation of data between CSS, MPRS and ECOES.
- e. In electricity, links will be established between Related MPANs (as defined in the MRA). One of the Related MPANs will be designated as the 'parent' and the other(s) the 'child'. Suppliers will only be permitted to process switches in respect of the 'parent'. When the 'parent' is switched the 'child' MPAN(s) will

¹⁰⁵ The MEM role is equivalent to the current MOP role in electricity

- automatically be switched with it. This will avoid the problems that can arise when a supplier is unaware of the presence of Related MPANs.
- f. In electricity, an indicator will be added to distinguish between import and export MPANs. Where both an import and export MPAN exist at a premises this feature should help suppliers to avoid switching the wrong MPAN.
 - g. In both electricity and gas, the existing systems will be modified to include meter points on Licence Exempt Networks which wish to switch. An indicator will be used to identify the meter points as being located on a Licence Exempt Network.
 - h. In gas, the nomination process for large supply points (LSPs) will be modified. Shippers will still be able to access transportation prices for specified MPRNs from Xoserve but the requirement to hold a valid offer will be removed from the critical path for switching.

6.17. DCC's smart metering systems currently receive information on which supplier is registered to each meter point via a data file known as the RDP (Registration Data Provider) file. In future this information will be provided by CSS using a synchronisation process. DCC's smart metering systems will also need modifying to ensure that no commands relating to the gaining supplier are sent from DCC to smart meters before the switch has been executed.

6.18. In addition, DCC will need to consider how to manage the release of commands to smart meters following switch execution on the calendar day prior to the switch becoming effective. Where a smart meter is operating in prepayment mode (which is only known to the losing supplier) the losing supplier will require time to change the mode to credit and to retrieve prepayment balances and other data from the meter. Once these actions have been completed, the commands can be sent to the meter to load the gaining supplier's security credentials and to reconfigure it for the contract agreed between the gaining supplier and the customer. The losing supplier will be allowed a set time window (perhaps 2 hours) to change the payment mode to credit. If they have not released the meter by the end of this window the gaining supplier will be free to request a change to the security credentials and to reconfigure it.

6.19. Finally, DCC will be required to generate a new dataset to notify CSS of the links between meter points and comms hubs: this will be used to assist in the matching of meter points to addresses.

6.20. The ECOES and DES enquiry services will be modified to accept details on the registered supplier and shipper and other data fields maintained by CSS, via a synchronisation from CSS to ECOES/DES.

Appendix 7 – Policy initiatives in the retail market

7.1. In this appendix we describe in further detail some of the policies, other than the Switching Programme, that Ofgem and industry are pursuing in the retail energy market. As noted in Chapter 2, we have grouped these initiatives into three categories:

- a) Removing perceived and actual barriers to switching;
- b) Helping customers to engage - removing barriers to accessing and assessing information;
- c) Temporary measures to protect some groups of customers.

Removing perceived and actual barriers to switching

7.2. Our work to enable faster and more reliable switching is one of the measures Ofgem is pursuing to improve consumers' experience of switching and avoid the negative outcomes – delayed, failed and erroneous switches – that too many customers experience. We have discussed the problems that our work tries to address in more detail in the strategic case.

7.3. Within its package of remedies, the CMA recommended that domestic PCWs should have access to data from ECOES and DES¹⁰⁶ in order to reduce the number of erroneous switches and failed switches and, more generally, to support PCWs in facilitating the switching process.¹⁰⁷ From early 2018, PCWs are expected to have access, through a dual fuel API service to specified data items held on DES and ECOES. Consideration is being given to extending this service to suppliers and other market participants. Gemserv and Xoserve have also consulted with industry on their future data access requirements.¹⁰⁸

7.4. Two industry led initiatives are also targeting erroneous switches and consumers' switching experience:

- Erroneous Transfer Working Group. This industry-led group¹⁰⁹, has developed several improvements to reduce the number of erroneous switches and improve their resolution process.¹¹⁰ The group is due to issue its closure report in early 2018 and any resultant code changes needed for its

¹⁰⁶ ECOES assists suppliers in the consumer transfer process by allowing the triangulation of data. It is also provides data access to other users such as metering agents. DES is a web-based tool designed to be used by authorised users to interrogate data relating to supply meter points.

¹⁰⁷ CMA (2016). Energy Market Investigation final report, para 13.264.

¹⁰⁸ <https://www.mrasco.com/meetings/jmdg>

¹⁰⁹ It was commissioned by the MEC and SPAA Executive Committee.

¹¹⁰ These include the erroneous switch performance assurance scheme, industry-wide erroneous switching reporting and mandatory consumer compensation attached to the erroneous switch resolution process.

improvements to be effective are anticipated to be implemented before the end of 2018.

- Energy Switch Guarantee. This is an industry initiative led by Energy UK on behalf of industry. As of the end of 2017, there were 23 signatory suppliers, which account for over 90% of the domestic retail market.¹¹¹ Ofgem and Government both support the aims of the Guarantee. It provides consumer-facing messaging to increase consumer confidence in the switching process by providing commitments that the switch will be reliable, hassle-free and completed within 21 days. Increased promotion of the Energy Switch Guarantee by suppliers and increased consumer awareness of it in coming years will also help to increase consumer engagement in the market when faster switching is introduced.

7.5. Further, Ofgem has also recently published an open letter which details proposals to put in place incentives to ensure suppliers improve their switching performance.¹¹² This includes proposals for automatic consumer compensation when switches go wrong and publishing suppliers' switching performance. These proposals complement other near term data improvements we are working with industry to develop and implement¹¹³, which will all help to mitigate any increased risk of erroneous switches, rejected switches and delayed switches when faster switching is introduced. We are engaging with stakeholders on the design of these proposals and the ambition is to implement automatic compensation by the end of 2018.

7.6. These initiatives will incentivise suppliers to improve the reliability of the switching process where they can do so. Taken together these changes should reduce instances of delayed, erroneous and unsuccessful switches. However, these initiatives are not able to tackle the underlying structural difficulties with the quality of industry address data, with no single accurate record and no single party responsible for data quality, that give rise to the vast majority of erroneous, delayed and unsuccessful switches.

7.7. All these measures are targeting consumers who are aware of their ability to exercise choice but choose not to act as a result of the risks and barriers we described in earlier sections.

Helping customers to engage - removing barriers to accessing and assessing information

7.8. As discussed in Chapter 2 an overall majority of consumers are still on more expensive SVTs. The CMA recommended a package of remedies designed to help those customers to engage in the market. These include the creation of a database

¹¹¹ Energy Switch Guarantee signatories listed here: <https://www.energyswitchguarantee.com/signatories/>

¹¹² See Ofgem (2017). [Creating incentives for suppliers to improve switching performance](#).

¹¹³ On these near term data improvements, [see open letter](#) published alongside this document which asks industry to continue to take forward improvements to plot-to-postal data and meter technical details.

of customers on default tariffs for more than three years; and the establishment of an ongoing programme to identify, test (through randomised controlled trials, where appropriate) and implement measures to give domestic customers information to help them engage in the retail energy market, known as prompts.

7.9. Alongside these remedies, Ofgem is also overseeing the roll-out of smart meters and has recently introduced new rules on auto-rollover contracts.

Prompts

7.10. The first Ofgem-led large-scale trial of a new measure to prompt greater engagement in the retail energy took place between May and August 2017.¹¹⁴ The trial was aimed at customers on an SVT for at least one year, and the measure tested was a single, standalone letter showing personalised information on cheaper offers across the market - the Cheaper Market Offers Letter.

7.11. The letter increased switching among SVT customers. The overall effect was to increase switching from a baseline of 1% to an average of 2.9% for all letter recipients.¹¹⁵

7.12. Based on these results, Ofgem is now developing a new trial to optimised versions of this measure on a market representative population of GB consumers. This trial will inform Ofgem's decision of whether to take steps to amend licence conditions.¹¹⁶

Database

7.13. In November 2016, we launched a small scale trial to test the CMA database remedy approach^{117,118}. In the same trial, we also tested a personalised Best Offers Letter. This presented three cheaper tariff deals from rival suppliers in one letter.

7.14. Both the CMA and Best Offer Letter approaches resulted in a significant increase in switching compared to the control group. In the fourth quarter of 2017 we trialled the 'Check Your Energy Deal' service. This was a trial of a digital service in Northampton with 10,000 customers. We will continue to trial and implement new

¹¹⁴ Ofgem. [Results from the Cheaper Market Offers Letter Trial](#)

¹¹⁵ Ofgem. [Results from the Cheaper Market Offers Letter Trial](#).

¹¹⁶ Ofgem (2017). [Our next steps to prompting greater consumer engagement](#).

¹¹⁷ Two larger suppliers each provided a sample of 1,200 of their 3+ year SVT customers (total sample of 2,400 gas and electricity customers). Each customer was randomly assigned to receive either: 1. One Best Offer Letter from Ofgem; 2. Up to six marketing letters from other suppliers, or 3. No letter (the control).

¹¹⁸ The CMA recommended that Ofgem create and maintain a secure database of disengaged domestic and microbusiness customers who have remained on SVTs for three or more years. It required suppliers to make this data available to Ofgem who will in turn share the data with approved suppliers for the purpose of marketing personalised energy deals directly to these disengaged consumers. Rival energy suppliers could then be given access to this data to market to them. This approach is known as the 'Database Remedy'.

information and services to help consumers engage in the market. This is likely to include the rollout of the customer database and extension of the Check Your Energy Deal trial, and trialling opt-in collective switching.

Smart meters

7.15. Ofgem is overseeing the roll-out of smart meters which is expected to be completed in 2020.

7.16. Smart meters give consumers near real time information on consumption and costs. We consider that more visibility of consumption and tariff data, through for example the in-home display supplied with the smart meter, will potentially increase awareness of how much gas and electricity customers use and when they consume it.

7.17. In turn, this increased awareness should improve consumers' understanding of their gas and electricity bills and encourage engagement in the market, eg looking for a tariff that reflects their pattern of energy use or that can offer them a better deal and switching tariff and/or supplier.

7.18. Smart meters will also improve the accuracy of bills as these would be based on actual use rather than estimates.

7.19. Further, smart metering will allow for more accurate quotes to be offered to consumers looking to switch by enabling suppliers to remotely access accurate and up-to-date information such as consumption and technical data in real time.

Temporary measures to protect some groups of customers

7.20. Ofgem has decided to pursue additional temporary measures to safeguard some groups of customers. These measures are in addition to the PPM cap proposed by the CMA and are described below.

PPM price cap

7.21. The PPM cap is one of the remedies introduced following the CMA investigation into the energy markets. It was introduced in April 2017 by Ofgem and is due to expire at the end of 2020 when the smart meter rollout is expected to complete.¹¹⁹ It covers all domestic prepayment customers, except those with a fully interoperable smart meter – approximately four million customers. The level of the cap will be updated on 1 April and 1 October each year.¹²⁰

¹¹⁹ From 1 April 2017, the amount of money suppliers can charge a domestic PPM customer will be subject to a price cap (or 'safeguard tariff'). Suppliers are required to ensure that their charges to PPM customers do not exceed the level of the cap. Ofgem is responsible for administering the cap.

¹²⁰ We publish separate levels of the cap for each region and meter type, calculated using a methodology designed by the CMA.

Vulnerable consumers price cap

7.22. In October 2017, Ofgem decided to extend the current prepayment cap to consumers who receive the Warm Home Discount (WHD) rebates.¹²¹ The cap will affect one million disengaged vulnerable consumers who receive the WHD. These protections came into effect on 7 February 2018, and will see a typical dual fuel household save around £120 a year.

7.23. Further, Ofgem is also considering a further extension of the cap to approximately around two million more vulnerable consumers in time for next winter (2018-19).¹²²

SVT price cap

7.24. Government is currently considering introducing new legislation to provide for Ofgem to put a price cap on energy bills. This would apply to households in England, Wales and Scotland for customers on SVTs and other default tariffs.

7.25. The safeguard tariff would be set by Ofgem, having regard to the need to protect consumers and maintain incentives for switching, and for suppliers to innovate, compete and finance their business. It would be a temporary measure, having effect initially until the end of 2020. The need for it would be kept under review, and extensions could be made, on the advice of Ofgem, up to the end of 2023 at the latest. The cap should be removed when the conditions for competition are in place.

¹²¹ Ofgem (2017). [Providing financial protection to more vulnerable consumers.](#)

¹²² <https://www.ofgem.gov.uk/publications-and-updates/providing-financial-protection-more-vulnerable-consumers>