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30<sup>th</sup> October 2017

## WWU response to Ofgem consultation Delivering Faster and More Reliable Switching

Dear Rachel,

Thank you for the opportunity to respond to this consultation. Wales & West Utilities is a gas transporter serving 2.5 million supply points in Wales and south west England. Our responses to the questions are below. We are not responding to the questions on the impact assessment as we do not have the information to comment on the assumptions.

### CHAPTER: Two

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

The consultation presents analysis that shows that the range of direct monetised consumer NPV of reform packages RP1 and RP2a are more or less the same (Figure 5 page 25) but states that the potential benefits from expected future innovation means that RP2a is favoured over RP1. Given the complexity of RP2a compared to RP1 we assume that the risk associated with RP2a is greater than RP1 which may reduce the potential non monetised benefits described above. Notwithstanding the issue of relative risks, we agree with the view that in the case where the net benefits of two investments are equal then the investment that provides most flexibility and future potential for innovation should be undertaken.

### CHAPTER: Three

**Question 2:** Do you agree that CSS should include an annulment feature which losing suppliers can use to prevent erroneous switches? Please provide evidence alongside your response. If you are a supplier, please support your answer with an estimate of the number of occasions over the past 12 months when you might have used such a feature had it been available.

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We agree that prevention of erroneous switches is very important. It seems likely that as the overall switching time decreases, the benefit of increasing reliability starts to outweigh benefit of a further reduction in overall switching time. Our view is that an annulment feature may be useful to prevent erroneous transfers but it would need to be subject to a performance assurance regime to prevent misuse.

**Question 3:** Do you agree that the 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.

As WWU is not a Supplier we are not responding to this question.

**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.

We agree that the use of these items, if implemented, should be backed by a strong performance assurance regime that will drive best practice across the industry and reduce erroneous transfers. We have no direct evidence to contribute but observe that to be effective a scheme needs to include all relevant players. For example our understanding is that although industrial and commercial Suppliers are not required to be party to the current industry arrangements for erroneous transfers they occasionally get involved in erroneous transfers and hence their inclusion in the arrangements would be desirable.

#### **CHAPTER: Four**

**Question 5:** Do you agree with our proposal to require DCC to competitively procure the communications network capability required to deliver the new switching arrangements?

We agree that competitive procurement should be used. We note Electralink's arguments that the Data Transfer Network (DTN) should be used for the communication system without a competitive procurement event on the grounds that the cost of the event would exceed the cost of connecting parties to the DTN. We urge the DCC to ensure that the procurement process is transparent and fair as the programme needs to avoid the risk of a legal challenge to the procurement process delaying the programme and adding cost to all parties.

To secure the most efficient procurement it is vital that the requirements are clear before the procurement event starts. If this is not the case then there is a risk of cost inflation due to extra requirements being added at a later stage or contractors claiming that the specification was not clear and that extra work is required. This can be ensured by effective project management and we note that Ofgem has recognised the importance of this.

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## **CHAPTER: Five**

**Question 6:** Do you agree with our proposal to have a three-month transition window (aiming to protect reliability) during which time suppliers have to meet additional requirements if switching in less than five working days? Please support your answer with evidence.

We note that Project Nexus had a three month Post Implementation Support period. Project Nexus implementation went very well, there were a large number of defects and fixes carried over from pre-go-live testing but post go-live defects themselves were relatively minor. We anticipate that the CSS project will require a similar period of Post Implementation Support. We think that any assessment as to whether the switching window can be reduced should be made after the CSS system is declared stable and the project exits post implementation support. It may be that Suppliers' ability to reduce the switching time is impacted by post go live issues or defects.

Therefore we suggest that the planning assumption should be for a three month transition window commencing once the CSS project exits post implementation support.

**Question 7:** Do you agree with our proposal to change the requirement on speed of switching to require switches to be completed within five working days of the contract being entered into (subject to appropriate exceptions)? Please support your answer with evidence.

We agree that moving to five working days switching is a sensible first step, subsequent reductions should be subject to an impact assessment to ensure that the benefits exceed the costs.

## **CHAPTER: Eight**

**Question 8:** Do you agree with our proposal to create a dual fuel REC to govern the new switching processes and related energy retail arrangements?

We agree that on balance the best approach is to have a dual fuel Retail Energy Code.

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

We agree that the REC should be owned and funded by Suppliers. We also agree that although the REC will mostly concern Suppliers, Gas Transporters and Electricity DNOs will need to be party to the REC. We agree with the initial scope. As regards the potential full scope we have the following observations:

- 1) Some of the items listed such as new connections, disconnections and reconnection are included in the UNC and IGT UNC in gas and we would be reluctant to move this out of these contracts as we believe that these are essentially wholesale matters best managed by Transporters and Shippers.
- 2) Unregistered customers are also covered in the UNC and should remain there for the same reasons as for (1)
- 3) There are a number of items in SPAA (and DCUSA) such as Theft Risk Assessment Service, Energy Theft Tip off Line and the forthcoming Theft Detection Incentive Scheme which are Supplier funded and which comprise most of the spend in SPAA. These are outside the initial scope of the REC as they are not relevant to CSS. There is a risk that although these should probably migrate into REC at a later date this may not

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occur for various reasons. We accept that the CSS project is not concerned with these points but suggest that unless there is a REC project that continues beyond the CSS project this element of the wider scope may not be achieved in a timely manner.

**Question 10:** Do you agree with our proposal to modify the DCC's licence, in order to extend its obligation to include the management and support of the DBT and initial live operation of the CSS?

Yes, we agree that if the DCC is to manage and support the Design, Build and Testing and initial live operation of the CSS then it should have clear obligations in its licence. We believe that since the CSS is to support Supplier switching then this cost should be funded by Suppliers only and not allocated to electricity DNOs and potentially Gas Distribution Networks and IGTs. To achieve this DCC will need to have separate cost recovery mechanisms for its Smart Metering activities and its CSS activities. We accept that this will complicate the operation of the DCC; however it is very important that costs are correctly allocated to the appropriate parties and we believe that this segregation is justified.

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

We agree that the transitional requirements should have regulatory underpinning and that the REC should be set up before the CSS go live date. Our experience with the Data Service Contract and the wider Funding, Governance and Ownership project for Xoserve was that the structure needs to be operational in advance of go-live so that it can be fully functioning at go-live. At go-live committees need to be appointed, terms of reference agreed, charges published and to achieve this governance needs to be in place in advance of go-live.

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

WWU opposed these SCR powers when they were proposed and we note that when the modification to the UNC Modification Rules was brought to the UNC modification panel only 7 out of 11 members supported implementation despite transporters having a licence obligation to implement the changes.

The problem with the approach proposed is that it relies on Ofgem drafting modifications that fully capture the necessary changes and more importantly deal with unintended consequences. Although industry led modifications may well take longer it does ensure that they receive proper consideration. There is a risk that SCR changes that are drafted by Ofgem will not receive proper scrutiny by the industry. We draw attention to the changes to the UNC introduced as a result of the Gas Security of Supply Significant Code Review and directed by Ofgem using powers granted under section in Section 36C of the Gas Act (introduced by the Energy Act 2011). Our view is that some parties were not as aware of the changes as they otherwise would have been and we attribute this to the changes being developed outside normal industry processes.

WWU will support the drafting of UNC modifications but urges Ofgem to use legal resource that is familiar with each code to minimise the risk of changes resulting in unintended impacts on other sections of the code. We accept that this may add cost to the project, but it will reduce the

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risk to the industry of unintended impacts. We also hope that the drafting will avoid a very narrow approach of only doing what is absolutely necessary to deliver the CSS. Both unintended impacts and only making the bare minimum changes can leave loose ends that need to be rectified at a later date. Any such follow up work would end up being paid for by industry parties and in the case of the UNC will probably fall on Transporters which we consider unreasonable given that the switching project should be funded by Suppliers.

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

The indicative timetable is very high level and we hoped for a more detailed timetable. It is very difficult to comment on the indicative timetable for the new governance framework without seeing the timetable for all the other workstreams.

We have seen the Faster Switching High Level plan dated April 2017. This shows large elements of overlap between the final design, drafting of modifications to industry codes and procurement. Although in theory overlaps do not matter as long as nothing changes, in practice there may well be changes required to modifications or design which will impact on the procurement. Significant changes to requirements once the requirements have been issued to bidders are likely to result in increased costs and / or delayed implementation..

We also note that the build and test period is between 12 and 18 months. The gas industry spent the last 9 months of project Nexus doing Level 3 and Level 4 testing (end to end testing), defect resolution, defect fixing and regression testing (although the regression testing was not actually proper regression testing and more testing of defect resolutions). While we accept that Project Nexus involved a very major change in comparison to the Faster and More Reliable Switching project, the switching project is cross industry and therefore while it may affect fewer activities it affects more parties and is therefore probably equally complex. Ofgem has clearly learnt from Project Nexus in that there is a need for external project assurance, that project management requires a lot of resources and that it is important to have proper project governance. These should ensure the project is delivered in as short as time as possible. We are concerned that the time allowed to build and test both the new systems and the changes to existing systems across all the gas and electricity industry parties involved is too short in comparison to what has been required in practice for Project Nexus and Smart Metering systems.

We also have two comments on interactions with the DCC smart metering project.

The difficulties of transferring smart meters between Suppliers should there be a Supplier of Last Resort event is well understood. We recognise that addressing this problem has been taken on by the Faster and More Reliable Switching project but note that it is an example of an issue that should have been addressed by one project (Smart metering) being passed onto another. Given that the intention is that Suppliers fund the Faster and More Reliable Switching project the cost of addressing this should be borne by the appropriate parties. We raise it as it is a practical example of an unintended impact (see our answer to Chapter 8 Question 12 above) that the Faster and More Reliable Switching project needs to avoid.

We also note the consultation issued by BEIS, on 16<sup>th</sup> October 2017, relating to providing Suppliers with operation flexibility around the SMETS1 end date. We acknowledge that the intention is that SMETS1 meters are enrolled in DCC systems. It would be unfortunate if

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customers were discouraged from switching due to the perception that there was a risk that they would lose smart benefits by switching. There is clearly a risk that the success of the Faster and More Reliable Switching project will be compromised by delays in the rollout of SMETS 2 meters and hence number installed by the deadline of 31<sup>st</sup> December 2020.

Yours sincerely,



Steve Edwards  
Director of Regulation  
Wales & West Utilities

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