

## Jonathan Dixon

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**From:** Edward Hunter - Extra Energy Supply Ltd <Edward.Hunter@extraenergy.com>  
**Sent:** 31 July 2018 15:54  
**To:** switchingprogramme  
**Subject:** Switching Programme: Proposed modifications to regulation and governance

Dear Rachel,

Thank you for the opportunity to reply to your consultation Switching Programme: Proposed modifications to regulation and governance dated 5<sup>th</sup> June 2018.

We would like to offer a few short comments on the following questions:

***Q2.1 Do you support our proposal to introduce a high level duty upon licensees to cooperate, where appropriate, in delivering the outcome of a significant Ofgem-led programme, such as a SCR?***

Acceding to the code should be a required Licence condition and indeed parties to it should achieve a minimum standard, both in an operational capacity or delivery of a project. What is unclear in the document is what “duty to cooperate” actually defines. The current structure whereby changes are effected through the industry code change processes is effective but only for those acceded to the codes. As stated Project Nexus was an example where there were limited powers for the code administrator or central service provider to be obligated to deliver in a timely manner resulting in a negative impact both on delivery and on other parties that were required to deliver their internal programmes. This resulted in increased costs for Suppliers which may have in turn been passed through to consumers. In making such a decision Ofgem should remain mindful that increased Governance and Regulation also increases industry costs especially if passed through to Suppliers by central service providers.

***Q2.4: Do you agree that our definition of ‘large supplier’ in REC v1 is suitable for ensuring an adequate level of engagement with User Entry Process Testing?***

We believe that the definition of large Supplier is set at a relatively low threshold. There is no staged level of participation and a company with 250k customers has very different resource levels or requirements to one that has over a million customers. Many newer market entrants will be in arrangements with third party service providers who may provide much of the expertise or services on their behalf under commercial contracts. In such cases it is unfair to expect the same level of expert engagement from these Suppliers. User entry testing will require coordination and is no doubt a necessity to protect the market however an approach based on collaborative support should be taken for smaller suppliers who are in a complex market.

***Q3.1: Do you agree with the proposed powers and functions of the RECCo Board, REC Panel and REC Manager, and how they would be distributed amongst them?***

Although we agree with the concept of the RECCo Board acting as representatives of consumers interests, strategic priorities set by Ofgem and the CMA could be seen as a step too far in terms of market interference. In reality suppliers own the relationship with consumers and have significant experience in delivering customer requirements including innovative products. Relatively recent policy changes such as restricting the number of tariffs available to customers which was subsequently removed have shown that there is often unintended consequences to what can seem like a sensible policy or strategy decision when implemented in the market.

Having parties from un-licenced organisations on the REC Panel may present a risk to ensuring their independence. We believe that there is more than enough expertise within current licenced market participants. Given the range of participants and business models, we believe this expertise covers all relevant categories and that participants should be selected proportionately based on their category or industry role. Licenced entities will be more than willing to represent consumer interests as it is enshrined within their licence conditions. Other than the

inclusion of a Citizens Advice representative and Ofgem oversight we do not believe that the appointment of “Independent REC Panel members with responsibility for promoting consumer interests” will increase consumer consideration.

***Q3.2: Do you agree with our proposal that independent Non-Executive Directors (NEDs), potentially from outside of the energy industry, should be present on the RECCo Board and that the composition of the RECCo Board should be subject to thorough review, both periodically and/or whenever the scope of the REC/RECCo Board responsibilities changes substantively?***

No, whilst understanding the need for innovation there is no guarantee that this will be sourced from individuals outside of the industry and as stated above lack of experience or insight into an industry and its function can unfortunately result in impractical solutions. It is however good practice in any governance structure to review board composition on a regular basis.

***Q3.3: Do you agree with the proposed composition, powers and functions of the REC Panel?***

The Rec Panel Composition reflects the governance structure of many current codes. Where the REC manager has the ability to raise changes and be involved in their prioritisation we must be mindful that every other party to the code is likely to have their own internal process for prioritisation of development to support changes. A definitive plan agreed by the industry means that parties have confirmed dates to work to. Any introduction of changes in prioritisation due to policy or political pressure only serves to increase supplier costs. In terms of performance reporting we believe that a new code such as the REC requires a Performance Assurance Framework.

***Q3.4: Do you agree that there should be entry and systems testing requirements placed on new entrants, comparable to those that we expect incumbent suppliers to undergo as part of the transition to the new switching arrangements?***

Yes, the impact of a Supplier who does not have effective systems capable of communicating effectively with market participants can be significant on both customers and other Suppliers. Given the increasing number of smaller market entrants we would expect these requirements to be proportional both in terms of the new entrants and the incumbents who should not be financially disadvantaged by being required to comply with more stringent testing.

It is our overall opinion the greatest need for many Suppliers in the market is clarity on the requirements at the earliest opportunity with the necessary collaborative support to implement them within realistic timescales. We also feel that the project is at risk of developing an unhealthy level of outsourcing which can only serve to increase the complexity of its development, implementation and future functioning.

If you have any questions please don't hesitate to contact me and please contact me prior to any potential publication of this response.

Kind Regards

**Edward Hunter**  
Regulatory Manager

Email: [Edward.Hunter@extraenergy.com](mailto:Edward.Hunter@extraenergy.com)

Mobile: 07980 681893

Web: [www.extraenergy.com](http://www.extraenergy.com)



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Registered office: 54 Hagley Road, Birmingham, West Midlands, B16 8PE

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Registered office: 54 Hagley Road, Birmingham, B16 8PE