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Decision

Switching Programme: Full Business Case

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The Switching Programme Outline Business Case, published in February 2018, confirmed our decision to introduce faster and more reliable switching, including the creation of a new, harmonised, dual fuel switching service. Since February 2018, the new services required to deliver that Centralised Switching Service have been procured.

This document sets out our updated assessment of the case for action in the light of the procurement outcomes and other changes that have occurred since February 2018. Our conclusion is that the case for action remains robust and the programme is expected to deliver benefits for consumers. We therefore confirm our intention to proceed with the Switching Programme as planned.

This document also provides updates on how the programme will be delivered.

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Executive summary

In February 2018 we published our Outline Business Case[1] setting out our decision on new arrangements for faster, more reliable switching. We also described the delivery plans, as well as the governance and stakeholder engagement mechanisms for the implementation phase of the programme. Lastly, we provided information on our intentions for the regulatory work required to run the programme and deliver faster, more reliable switching.[2]

In this Full Business Case, we provide an update on the key developments since the publication of the Outline Business Case. These include the procurement exercises for developing and operating the required systems to facilitate faster and more reliable switching, as well as the functions for the co-ordination and assurance of this large multi-stakeholder technical implementation and change programme. This document also describes the further work that has taken place on governance and stakeholder engagement.

In this document, we do not re-state the rationale, options analysis and cost-benefit assessment for the proposed systems, processes, and delivery plans at length. We summarise the positions set out in the Outline Business Case and provide further information only where things have developed materially further or changed.

Strategic Case

In the Outline Business Case we set out our rationale for intervention to introduce faster and more reliable switching in the retail energy market. We said that the current switching process is slow with too high an incidence of errors and failures, and 60% of households had not recently, or ever, engaged in the market. Faster and more reliable switching will improve the experience of individual consumers and build consumer confidence to engage in the market. We expect this to lead to an increased engagement in the market.

We noted that 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. We also noted that not everyone needs to switch for the whole market to benefit from the effects of competition, and that the non-monetised benefits of wider innovation and competition were expected to be more significant than the direct benefits accruing to consumers who do switch.

Further, we were clear that only a small reduction in consumer detriment as a result of increased competition and innovation would be required to fully offset the costs of the programme. It is difficult to quantify these benefits, but by way of a comparison, an average reduction in household energy bills of just one pound as a result of increased competitive pressure in the market, would more than offset the full cost of the programme.

Since we published the Outline Business Case we have seen the introduction of a temporary price cap for default tariffs to protect disengaged consumers from the impacts of the competitive market not operating effectively. While the price cap is in place as a safeguard measure, Ofgem is leading a number of programmes and projects designed to improve the

[1] https://www.ofgem.gov.uk/publications-and-updates/switching-programme-outline-business-case-and-blueprint-phase-decision

[2] These have been further elaborated in the October 2018 document "Switching Programme: Regulation and Governance - way forward and statutory consultation on licence modifications" at https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications

operation of the market and deliver better outcomes for consumers, ready for the removal of the price cap, potentially as early as 2020 but not later than 2023.

The Switching Programme is one part of that broader action to improve competition and customer service. Other elements of that package include using the information we have gathered from research and trials to consider what we can do to improve customer engagement. We will also consider how to help consumers engage in new ways in response to changes in the energy system. We plan to use data services to provide opportunities for the market to engage with customers who have been on standard variable tariffs for three years or more. We will also work with the industry to design and implement midata in the energy sector. This will enable consumers to share their data quickly and easily with accredited third parties, which will promote consumer engagement and drive innovation and competition in the market.

At a structural level, Ofgem is conducting a joint review with Government on the design of the retail energy market. We will identify reforms to ensure that the market design is fit for the future, and places the needs of consumers at the heart of the energy system. This will help promote competition and drive innovation, while ensuring that consumers benefit from changes and remain protected from harm.

All of these programmes and projects require the industry systems and processes for switching to be fit for purpose. The Switching Programme will not, on its own, deliver an effective competitive market. However the outcomes that the programme will deliver – faster and more reliable switching, on a flexible dual fuel platform that will support innovation – are essential to the effective operation of a competitive market and a core part of our work programme to improve the operation of the retail energy market.

We are aware that these programmes of change, jointly with the roll-out of smart meter and the move to market-wide half-hourly settlement require a lot of activity and focus from industry parties. Within Ofgem, we aim to ensure that our various programmes join up and don't conflict in terms of the operational or other requirements they make on industry parties. However, we are interested to hear where people think that our programmes are not optimally aligned, or that we could increase the efficiency of activities by bringing these strands of work together in better ways.

Economic Case

Our estimate of the full industry cost of the programme has increased by £94m from £332m to £426m against the numbers published in the Outline Business Case. These additional costs come from four areas:

- Firstly, they reflect the impact of a longer Design, Build and Test (DBT) phase than originally planned, which has the effect of both increasing forecast cost and delaying forecast benefits. However, the longer DBT phase reduces delivery risk and makes it easier for parties to manage their participation in the programme.
- Secondly, it reflects the fact that some existing service providers have significantly revised their estimates of the costs of making changes to existing systems to support the new switching arrangements.
- Thirdly, it reflects higher than expected costs with regard to programme coordination and assurance. This takes account of the longer DBT phase and the complexity of the delivery environment for the programme.
- Lastly, we have removed the proposal (and associated benefits) for the Data Communications Company (DCC) to provide a customer enquiry service for supplier ID and gas and electricity meter number (MPxN) data from the scope of the programme. This is being separately developed by industry.

Our estimate of the benefits to be delivered by the programme remains broadly static. We have looked at the impact of recent changes in the market, including the introduction of the default tariff price cap, and concluded that, taking all the changes together, we would

expect to see a marginal increase in benefits over the assessment period than as set out in the Outline Business Case. We have also confirmed that the outcome of DCC's procurement of a Registration Service and Address Service will result in a Centralised Switching Service (CSS) that delivers the direct benefits of faster and more reliable switching, and that is capable of adapting flexibly to changes in the market and will support innovation and change throughout the investment period. We expect all the necessary licences to support the reliability benefits to be in place ahead of Licensed Parties mobilising at the end of July.

Looking only at the monetised benefits, the expected net benefit of the programme to consumers remains substantively positive. The bottom of the range of expected net benefits is now lower than it was in the Outline Business Case, but it remains at between £185m-£1,077m, a compelling case for intervention. As we noted in the Impact Assessment, even if the monetised costs did not show a net benefit we believe that the strategic arguments for intervention, and the non-monetised benefits of competition and innovation, would be a sufficient reason to proceed and are likely to far exceed any quantified benefits.

Commercial Case

DCC has conducted competitive procurement processes for the provision of the Registration Service and the Address Service. It is also in the process of competitively procuring service management tools. DCC and Ofgem have competitively procured, or are procuring, the necessary programme coordination and assurance functions to deliver the programme. These procurements have demonstrated that the market is capable of meeting the requirements of the Switching Programme. Whilst some elements of the procurement have yet to complete, we have a high degree of confidence from the information provided to us by DCC that all the necessary products, services and licences will be in place ahead of Licensed Parties mobilising at the end of July.

Financial Case

DCC will be responsible for funding the design and build of the CSS. DCC will operate under an ex post price control regime during the design and build period, with appropriate milestones and incentives to ensure economically efficient delivery. DCC has consulted on its business case[3] for the DBT phase of the programme. Funding for some other programme functions, and for the operation of the CSS, will be through the Retail Energy Code (REC). We have consulted on the budget for the REC for the financial year 2019/20. This has now been finalised and accepted by the interim REC Company (RECCo) Board.

Management Case

We set out our proposals for DBT phase governance in the Outline Business Case. We have modified those proposals in some areas, and we describe in this document the baselined governance structures and how they will operate.

[3] https://www.smartdcc.co.uk/smart-future/switching-programme/switching-business-case/

1. Strategic Case

Section summary

The Outline Business Case sets out the objectives, rationale and strategic context for the programme. These remain largely unchanged.

While the price cap was anticipated in the Outline Business Case, we provide updated analysis of how it affects the strategic context and impact assessment below.

Since publication of the Outline Business Case, we have introduced automatic compensation payments to consumers when certain things go wrong with their switch. We believe this will reduce the risk of the level of erroneous switches increasing when we move to faster switching.

Objective and Strategic Context

1.1. The programme's 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.

1.2. The subsidiary aims of the programme 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.

1.3. These objectives have not changed, neither has the rationale for adopting them which was set out with supporting evidence in the Outline Business Case.

1.4. The Switching Programme is only one of a number of interventions with the aim to increase competition and consumer engagement in the retail energy markets. The wider framework of activity includes measures to influence consumer behaviour as well as structural changes in the market.

1.5. Since the publication of the Outline Business Case, for example, Ofgem has made progress with suppliers to make it easier for people on poor value default deals. We have been running a programme of trials to find the best ways to help these customers make better choices about their energy bills.

1.6. The simplified collective switch trial, which ran between February and April 2018, was the most successful trial Ofgem has completed to date. It involved around 50,000 customers from one of the six largest energy suppliers who had been on a standard variable tariff for three years or more.

1.7. These customers received letters showing how much they could save by moving to a collective switch tariff negotiated by a price comparison service. Unlike other collective switches, customers did not have to provide complicated information about their existing tariff to see a personalised savings calculation, making it easier to start a switch. The result was that more than a fifth of customers in the trial switched, with average savings of around £300[4].

1.8. As we set out in our Forward Work Programme[5], we plan to use data services to provide opportunities for the market to engage with customers who have been on standard variable tariffs for three years or more. We will also work with the industry to design and implement midata in the energy sector. This will enable consumers to share their data quickly and easily with accredited third parties, which will promote consumer engagement and drive innovation and competition in the market.

1.9. In terms of structural changes to the market, Ofgem published conclusions, following an earlier call for evidence, on future retail markets design in July 2018. Areas of focus for further work in this area are: reform of the supplier hub model, alternative default arrangements for the disengaged, and consumer protections for intermediary activities. A number of near-term actions to promote innovation and competition in the market: enabling customer data access, improving retail code arrangements and enabling more seamless market entry for innovative propositions.

1.10. These developments on consumer engagement and future market design illustrate that the Switching Programme operates within a framework of interventions to drive greater consumer engagement, competition and innovation in the market which also includes the roll-out of smart meters and half-hourly settlement.

1.11. It is also clear that the systems and processes we are developing now need to be fit to support fast-moving innovation and change for a future market. This has been a design criterion for the Switching Programme design work from the outset. In the

[4] https://www.ofgem.gov.uk/publications-and-updates/eight-times-many-people-get-better-deal-ofgem-s-collective-switch-trial
[5] https://www.ofgem.gov.uk/publications-and-updates/forward-work-programme-2019-21

procurement exercise for the CSS, particular attention has also been paid to adaptability of the solution to future innovation, for example by ensuring that the new systems would be able to accommodate a future significant increase in switching volumes or could be adapted to structural changes, such as multiple suppliers per meter point. The introduction of the new REC, as a code that will be focused on ensuring good outcomes for consumers and supporting innovation, will help to ensure that the new switching arrangements can be changed quickly and efficiently, at a proportionate cost, to allow for significant changes to be introduced in how the market operates.

1.12. Two areas of policy, in particular, have developed since the publication of the Outline Business Case, the price cap and the introduction of automatic compensation where switches go wrong:

- While the introduction of the **price cap** was foreseen in our Outline Business Case, we did not attempt to model the impact that it would have in the Impact Assessment. We noted that it would be a temporary measure and would be likely to have a temporary effect of dampening both switching volumes and the financial benefit from switching. The price cap is intended to be in place while the conditions for effective competition are established in the market.

  Faster and more reliable switching are recognised as important conditions for effective competition. Ofgem has therefore recognised that the implementation of the Switching Programme will be an important consideration in any advice to the Secretary of State to remove the price cap. This means that the strategic importance of the programme has increased since the Outline Business Case was published. We have now updated the impact assessment to take account of a number of price cap impacts. These are further described in the Economic Case in section 2.

- We are in the process of introducing **automatic compensation where switches go wrong**. We expect this to have the effect of incentivising suppliers to improve the efficiency of their processes and the accuracy of their data. In particular we expect it to lead to a reduction in the number of erroneous switches that are caused by supplier behaviour rather than industry data quality. We believe this will reduce the risk of the level of erroneous switches increasing when we move to faster switching.

1.13 We are aware that a lot of change in the market is underway, or planned over the next few years. Together with the roll-out of smart meters and the move to market-wide half-hourly settlement, these require a lot of activity and focus from industry parties. Within Ofgem, we aim to ensure that our various programmes join up and don't conflict in terms of the operational or other requirements they make on industry parties. Specifically, in relation to the Switching Programme we have tried to ensure that we are aware of, and understand, all the relevant changes (not just those dictated or led by Ofgem or BEIS) in the market during the DBT phase and that we have built the DBT plan to take account of them. Where we know that there will be interactions between the introduction of the new switching arrangements and other changes we are actively managing those dependencies. Both in connection with the Switching Programme and more generally, we remain interested to hear where people think that our programmes are not optimally aligned, or that we could increase the efficiency of activities by bringing these strands of work together in better ways. We note that programmes may impact on different parties in different ways, and that what may work for some parties might be very difficult to manage for others. If there are overload or conflict issues that you would like to bring to our attention it would be helpful to be as specific as possible about the issue causing concern and a proposed solution.

2. Economic Case

Section summary

In this chapter we outline our approach to the Economic Case. We set out a brief summary of the Outline Business Case Impact Assessment.[6] We then look at each area where there have been changes that might require an update to this assessment and consider what that impact would be. Finally we bring all the changes together to present an overall updated summary impact. We conclude that, while the overall costs are higher than those identified in the Outline Business Case, the benefits should be realised through the chosen solution and the business case for this action remains compelling.

Approach to the Economic Case

2.1. We published a full Impact Assessment with the Outline Business Case in February 2018. We noted then that the February 2018 publication represented our final stage Impact Assessment but that we would update our analysis in 2019 at the end of the CSS procurement process when we published the Full Business Case. In this Full Business Case we therefore consider whether there have been any material changes to the assumptions that were made in the Impact Assessment, and update the monetised analysis where any new information is available, either as a result of the procurement processes, or as a result of further analysis by third parties of the costs that they will incur.

2.2. The set of proposals published in the Outline Business Case are largely unchanged. Documentation covering the full logical design[7] were published shortly after the Outline Business Case and have been baselined and managed under change control. At the time of publication of this document, around 30 changes have been made through the change control process. All of these have been considered by the Design Forum[8], and their impacts have been assessed. None of these changes have been identified as having a material impact that would lead to additional costs for market participants other than the CSS provider. Any cost implications for the CSS provider have been included in the revised costs provided to us by DCC following procurement. We do not therefore separately set out the impact of these design changes in this document.

2.3. In October 2018 we published our DBT phase plan[9]. This was the first time that we had attempted to provide a detailed plan for the DBT phase and the plan replaces our indicative 12-18 month assessment of the time require for DBT. The plan shows a go-live range in the summer of 2021. This contrasts with our previous estimate, in the Outline Business Case, of go-live at the end of 2020. This is the only material

[6] https://www.ofgem.gov.uk/system/files/docs/2018/02/delivering_faster_and_more_reliable_switching_final_stage_impact_assessment.pdf
[7] Published 22 June 2018 https://www.ofgem.gov.uk/publications-and-updates/switching-programme-publication-design-baseline-4
[8] An open forum, attended by industry experts, constituted to review changes to the design baseline.
[9] https://www.ofgem.gov.uk/publications-and-updates/draft-dbt-phase-plan
https://www.ofgem.gov.uk/publications-and-updates/programme-high-level-plan

change to the programme timeline. We consider below the cost implications of this change.

2.4. During 2018 we worked closely with existing industry system providers to ensure that they fully understood, and were planning to deliver, the required changes to support the new switching arrangements. During that discussion it became apparent that the initial assessment from one of the existing system providers had omitted some significant costs. We consequently invited all existing system providers to complete a further Request for Information if they needed to let us know of material changes to their cost estimates. The results of that call for additional information are covered below.

2.5. Also during 2018, DCC ran procurements for the CSS provider(s) covering the Registration Service and the Address Service, for a System Integrator (SI) and for a Core Systems Assurance Provider. It is currently running a procurement for the provision of service management tools. The outcomes of each of those procurements, to the extent known, are factored into this impact assessment update and replace DCC's initial cost estimates. These are covered below, taking account of the need to protect commercial confidentiality of the service providers. At the same time, Ofgem has procured a Programme Coordinator service and is in the process of procuring a Licensed Party Assurance service. The costs of these services are also included in the update that replaces the initial estimates.

2.6. In December, we confirmed that DCC would have the role of overseeing the delivery of the CSS during the DBT phase and be responsible for the operation of the CSS up to the end of the current DCC licence period. DCC has developed a business case covering the DBT phase[10] and its updated costs are covered below. Further understanding of the impact of the proposals on the smart meter arrangements has also led to a re-evaluation of the costs of making changes to the Data Service Provider (DSP). Again, this is covered below, taking account of the need to protect commercial confidentiality.

2.7. We have also reviewed the benefits that the introduction of faster and more reliable switching was intended to deliver to check that those benefits are still relevant and that the chosen solution can be reasonably expected to deliver them. This includes taking account of the wider context, where we have also looked at whether other changes, such as the introduction of the default tariff price cap, require any changes to our assumptions or our analysis. However, as we note in the Strategic Case, we consider that the need for faster and more reliable switching, and a new harmonised dual fuel system that can support and adapt to change, is at least as strong as it was in February 2018. Changes in the market and the wider environment continue to make it important to be able to support effective energy retail competition.

[10] The updated DCC business case covers the period from May 2019.

Summary of the Outline Business Case Impact Assessment

2.8. **Costs**: The costs in the Outline Business Case were derived from estimates provided by DCC and other market participants for implementing and operating Reform Package 2a (RP2a). The overall cost estimate for RP2a was £332.2m over 18 years from 2018 to 2035.[11]

2.9. **Benefits**: The monetised benefits included the direct benefits to consumers from faster switches and lower volumes of exceptions and the indirect benefits of higher switching volumes likely to result from easier and more reliable switching. The overall direct benefit central case estimate was £336m over 18 years. The indirect benefit estimate was £339m to £908m over the same period. We noted that the monetised benefits did not include the benefits to consumers of encouraging and enabling greater competition and innovation in the market, which we were not able to monetise. We said that we expected these non-monetised benefits to be the most significant impacts of the reforms.

2.10. **Net Monetised Consumer benefit:** The Outline Business Case, set out our decision to move ahead with implementing a new CSS to deliver faster and more reliable switching. The analysis of the costs and benefits of the proposed approach to the Switching Programme which envisaged net benefits over an 18 year period (3 years of build, and 15 years of operation) was in the range £227m to £1,069m (taking into account a range of costs as well as the range of direct and illustrative indirect benefits).

2.11. **Non-Monetised Consumer Benefit**: Taking a different perspective, we said that although we were unable to quantify or monetise the competition and innovation impacts, we had considered what the scale of these might need to be to guarantee that our reforms pay off for consumers. We 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 was, on average over the appraisal period, between £0.51 and £0.72 per year for every household. 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. To put this into context, an average reduction in household energy bills of just one pound as a result of increased competitive pressure in the market would represent a 2% reduction in the level of consumer detriment identified by the CMA.[12]

2.12. This gave us confidence that only a very small increase in competitive pressure in the market as a result of the switching reforms would more than outweigh the total costs of introducing those reforms.

2.13. **Innovation:** The Impact Assessment looked at an 18 year period, covering 15 years of operation of the CSS from 2021. We noted that over this period there was likely

[11] Unless otherwise stated, the Impact Assessment costs presented in this chapter are Net Present Value (NPV) costs over this 18 year period.

[12] In its Retail Energy Market Investigation 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, reaching £2bn in 2015. This analysis suggests that, on average, households have been paying over £50 each year more for their energy than they need to. See CMA page 628, para 10.109.

to be substantial change in the market and that the switching system would need to be able to support that change in order not to put a break on innovation. We said that introducing a new single CSS, designed with future change in mind, will ensure that this service and the supporting governance arrangements can quickly and efficiently adapt to enable transformative industry innovations that were not anticipated when the existing platforms were developed. While the existing separate gas and electricity 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 and with separate governance arrangements than it would with just one. This was a significantly material factor in our decision to adopt the RP2a solution with a new single CSS rather than to consider the potential solution of upgrading the existing gas and electricity switching services and introducing a new centralised Retail Energy Location service to improve reliability.

Updating the Impact Assessment

2.14. As described above, the Outline Business Case demonstrated a strong positive case for action to introduce faster and more reliable switching through the introduction of a new single CSS, and we decided to move forward. We are now at the stage where DCC can enter into a contract with a provider or providers to deliver that CSS. In order to inform our decision to proceed, we have updated the analysis underlying our Impact Assessment to take account of any changes since the assessment was published in February 2018. This includes new information available as a result of the procurement processes as well as refinement of the estimated costs, and consideration of any wider changes that impact on the programme.

2.15. Design change: As noted above, there has been limited change to the design proposals that we made in the Outline Business Case. Those changes that have been made have been under change control and subjected to industry consideration and an impact assessment process. Each of the changes has been pursued with the goal of enhancing the benefits to be delivered. However, none of these changes alter the fundamental assumptions that drive the monetised assessment of benefits and we do not consider that we need to make any changes to the benefits assessment to reflect them. None of the design changes were identified as leading to an increase in the costs of any parties other than the CSS provider or DCC. Costs for both the CSS provision and DCC are being revised in this update and those new figures will include the latest proposals on design. We do not, therefore, consider that any design changes require an update to either the cost or the benefit analysis in the Outline Business Case Impact Assessment.

2.16. Timing change: The programme is on track against the plan that we published ahead of the Outline Business Case. However, we have now developed a DBT phase plan that is fully informed by the requirements of the programme. This plan replaces our initial assessment that the DBT phase would take from 12-18 months, and envisages a go-live range in the summer of 2021, rather than at the end of 2020. This will have some impact on the cost to industry to deliver the programme, and put back realisation of consumer benefits by six months.

2.17. In the Impact Assessment we ran a sensitivity analysis that looked at a delay of the programme by a year. Whilst this was useful to provide an upper bound of the cost of unplanned delay in order to test the robustness of the business case in the face of unexpected delays, it does not provide a particularly helpful template to assess the impact of a longer planned DBT phase. It should be noted that we have discussed the DBT phase plan with all key programme participants to ensure that it is as robust as it can be at this stage. The plan includes three months of contingency as well as

having a three month go-live range. We believe that this significantly reduces the risk of unplanned delays to implementation.

2.18. Whilst it is not practical to derive an accurate cost to the extension of the DBT phase, we can identify a range within which we would expect the cost to sit. It should be noted that DCC's costs, including those of service providers, will be based on the current plan and do not need to be further adjusted. As noted above, we invited existing system providers to re-submit costs in the light of discussions based around the current plan if they anticipated any material changes. These adjusted costs are reflected below and do not need to be further adjusted in the light of the current plan. The SI, Programme Coordinator and Assurance providers have bid on the basis of the current plan, and again, those costs will not need to be adjusted. We recognise that there could be some additional cost to market participants in relation to both programme costs and transitional costs. In our sensitivity analysis we applied a 20% uplift to take account of a six month delay to the DBT phase. We consider that this is a significant over-estimate in the context of a planned DBT phase duration, but it provides a basis for developing a range of costs. Following the same methodology used in the sensitivity analysis, but correcting for the areas where the impact of the change in timing is already covered, we get an upper bound for the increase in costs of the new go-live range of £27.8m. In practice, we think it is likely that this is a significant overstatement, as not all of industry's costs would be impacted by the longer period for DBT, and all parties will be planning to the new timeline and will be able to manage their costs accordingly. The longer DBT phase also introduces a delay in the realisation of the benefits of the programme. We estimate this to lead to a reduction of £8.0m over the lifetime of the programme. Taken together, the impact of a longer DBT phase has the effect of reducing the net benefits of the programme by up to **£35.8m**.

Costs

2.19. **Existing System Provider Costs**: We sought costs from all programme participants to inform the February 2018 Impact Assessment. That included information on the costs to existing industry system providers of making the necessary changes to the systems that they are responsible for. We have been working with the providers of those systems since the publication of the full logical design to ensure that the implications of the design, and our plan for DBT, are fully understood and can be delivered. During this process, one of the existing system providers concluded that there were elements of cost that it had not included in its initial response to the Request for Information. Accordingly we invited all the existing system providers to consider whether they were aware of any material changes in their understanding of the cost to them of implementing the programme requirements and to provide us with updated figures.

2.20. In order to protect commercial confidentiality we simply note here that as a result of that invitation we are increasing the total one-off cost of 'other industry' participants by **£28.7m** to reflect those updated figures. This is a substantial percentage increase. We will be working with all existing system providers over the lifetime of the programme to ensure that all costs incurred are necessary, economic and efficient. However, the primary responsibility for managing the costs of these system providers rests with their individual governance mechanisms. We expect those governing authorities to hold their providers to account for the costs they incur implementing the new switching arrangements.

2.21. In the Outline Business Case we assumed that the DCC would also be responsible for the provision of a consumer enquiry service to allow consumers to find out their

MPxN and energy supplier(s). This was estimated to give rise to cost savings from Distribution Network Operators (DNOs), Xoserve and Gas Transporters and a cost for DCC. Since the Outline Business Case, Xoserve has developed alternative arrangements for the efficient provision of a consumer enquiry service and is considering how best to roll out this service. Industry is now considering the potential to develop a single service where a consumer could access information for their gas and electricity supply. We have therefore removed both the estimated cost to DCC of providing the service, and the estimated cost reduction to existing service providers from not providing the current service, from our analysis for the Switching Programme. This results in a net increase in costs across the programme of **£11.9m**.

2.22. **DCC, central PMO and central assurance costs:** In common with other programme participants, DCC submitted an estimate of its costs to implement and operate the new switching arrangements for the Impact Assessment. DCC's costs covered: the external costs of services to be procured; the internal cost to DCC of its responsibilities within the programme and for the subsequent operation of the CSS; and the cost of changes to the Smart Metering infrastructure to implement the new switching arrangements. DCC has now provided more definite information in respect of each of these categories of costs. It has provided a more definite assessment of the external cost of services to be procured as the majority of those procurement processes have now completed. It has provided a more definite assessment of its internal costs for delivery of the programme and operation of the service as planning on both has progressed, and it has provided an updated estimate for the cost of the changes to the smart metering infrastructure.

2.23. DCC's estimated cost published in the Outline Business Case also included the cost of a central PMO and all planned programme assurance. In the event, Ofgem has procured the central PMO, and is in the process of procuring a Licensed Party Assurance provider. For consistency, and additionally for reasons of commercial confidentiality, we have included within the DCC costs the expected cost of all these central programme functions, covering both those services procured by DCC (SI and Central Systems Assurance) and those services procured by Ofgem (the Programme Coordinator and Licensed Party Assurance). It should be noted that the costs of the services procured by Ofgem will be recovered from industry via the REC, rather than via DCC. The costs of these central functions is higher than the initial forecast. This reflects, amongst other things, the cost of an additional six months of the DBT phase, which significantly impacts the cost of all these contracts. These costs have all been arrived at through a competitive tender process, and we are consequently confident that they represent the best value for money for the work that needs to be done.

2.24. In the February 2018 Impact Assessment, we presented DCC's costs as a single figure, covering all the elements set out above. In the interests of consistency and maintaining commercial confidentiality we present here a single figure for the increase in NPV of DCC's costs that is directly comparable to that used in the Impact Assessment. The NPV for DCC's costs reported the Outline Business Case was £141.3m. The revised NPV, taking account of costs identified through procurement, including the Ofgem-procured central PMO and Licensed Party Assurance, and updated costs for changes to DSP, is £158.4m, an increase of **£17.1m.**

2.25. **Overall changes to cost estimates:** The overall cost estimate for RP2a was £332.2m over 18 years. With the changes identified above, taking account of the uncertainty around the impact of planning over a longer DBT period, the overall costs estimate for RP2a is now £425m.

Benefits

Monetised Benefits

2.26. The direct and indirect monetised benefits are based on assumptions around the savings that customers might expect to receive from switching and the amount of switching. In the February 2018 Impact Assessment we noted that the baseline that had been used in the analysis related to switching figures from 2016, and price differentials between Standard Variable Tariffs (SVTs) and the most competitive prices in the market in recent years.

2.27. In the February 2018 Impact Assessment we noted that actual switching rates had risen significantly during 2017. These continued to rise during 2018. We also set out our expectation that switching rates would fall under a price cap. Because of these dual factors, operating in opposite directions, we concluded that the 2016 switching rates remained a reasonable assumption for the analysis.

2.28. Since publication we have introduced a price cap on domestic default tariffs. In order to test our initial assumption on the impact of this change on the estimated monetised benefits of the Switching Programme we have carried out further analysis using the assumptions from the published price cap analysis on switching rates and the impact of the price cap on both rates of switching and the benefits to be gained by consumers from switching.

2.29. This analysis has shown that, if we update the analysis to use the price cap assumptions on the underlying rate of switching and the impact of the price cap on both switching rates[13] and the benefits to be gained from switching while the price cap is in place[14]. This reflects the significant increase in switching rates since 2016 (the rate used in the February 2018 Impact Assessment) and the fact that the price cap is a temporary measure. In conducting this analysis we have assumed that the impact of the price cap on switching rates and price differentials between SVTs and the most competitive rates in the market decreases in impact in a linear fashion from the end of the price cap, getting back to the underlying assumptions after 10 years. In the light of this further analysis we remain confident that the estimated benefits from the February 2018 Impact Assessment remain a conservative estimate of the monetised benefits to be delivered by the Switching Programme.

2.30. In the February 2018 Impact Assessment we ran a sensitivity analysis to look at the impact of a significant reduction in the savings to be made from switching. That analysis concluded that even if those savings were reduced by half, there would still be a strong positive case for this action. This continues to give us confidence that, even if there were to be a significant further reduction in the savings to be made from switching than might legitimately be expected as a result of the price cap, the introduction of faster and more reliable switching, as proposed, would still be fully justified. As noted below, we have been clear that, regardless of the level of direct

[13] In line with the price cap IA we have updated the base assumption on the number of annual switches from 7.76m to 9.31m. We have assumed a 40% reduction in the switch rate to end 2023 (the longest period over which the price cap can be in place) after which the switch rate increases steadily over a 10 year period back to the updated base assumption.

[14] In line with the price cap IA we have lowered our assumption on the savings that a dual fuel direct debit customer would achieve by moving from a standard variable tariff to the cheapest deal from £261 to £140. We have assumed that the price differential will increase from the end of 2023 (the longest period over which the price cap can be in place) back to the previous counterfactual.

and indirect monetised benefits offered by faster and more reliable switching, the key driver for Ofgem's intervention would continue to be the benefits of increased competition and innovation that have not been monetised. While the above analysis gives us increased certainty regarding the monetised benefits being realised, we would in any case have continued to believe that the non-monetised benefits to consumers would justify the costs.

Non-Monetised Benefits

2.31. We have no reason to re-assess our expectation that the non-monetised benefits will outweigh the monetised benefits from this intervention. The introduction of a swift and reliable switching process is essential to the efficient operation of a competitive market and will be an important consideration in Ofgem's advice to Government about when it is appropriate to remove the price cap.

2.32. As noted above, in the February 2018 Impact Assessment we noted that only a small reduction in consumer detriment as a result of increased competition and innovation would be required to fully offset the costs of the programme. 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. This means that just a 2% reduction in the level of consumer detriment, or an average reduction in household energy bills of just one pound as a result of increased competitive pressure in the market, would more than offset the full cost of the programme.

Innovation

2.33. We said in the February 2018 Impact Assessment that one of the material differences between option Reform Package 1 (upgrading the existing industry switching systems) and the option that we chose (with the introduction of a new single CSS) was the ability of a single new system, built with innovation and flexibility in mind, to adapt quickly and cost effectively to support changes in the market. In making the decision to proceed with the programme at this point we have satisfied ourselves that DCC, in conducting the procurement to select a provider for the CSS, has arrived at an outcome that will meet the aspiration of a system that is capable of adapting quickly and cost effectively to change.

2.34. The assessment of the capacity for innovation and flexibility has been an important part of the procurement process. DCC has drafted its commercial contracts taking account of the need for the CSS to support change, and learning lessons from experience with Smart Metering and elsewhere. The bidders were tested on how their systems would be designed to support innovation and were asked to articulate how they would address three plausible change scenarios: allowing multiple suppliers per meter point, the creation of demand points behind a meter point and disintermediation[15]. A high threshold across the combined flexibility criteria was set for any bidder to proceed to become the preferred bidder. Ofgem has worked with DCC to ensure that where it has determined the 75% threshold to have been met, we have been able to agree that this is in line with the expectations around flexibility

[15] The disintermediation scenario looked at circumstances where the customer's relationship is with an industry party other than a supplier

and innovation that were set in the Outline Business Case and that are essential to the business case for moving ahead with the CSS.

Summary Monetised Impact

2.35. Bringing the impact on costs and benefits together, the overall monetised benefit to consumers is estimated to be between £185m and £1,077m.[16] We continue to believe that the non-monetised benefits outweigh the monetised benefits.

[16] We have assumed that the additional costs identified in this chapter are not fully passed through to consumers. Paragraphs 7.1 – 7.3 of our consultation stage IA explain our approach to cost pass through, which we have retained in the IA published alongside the Outline Business Case and in this update.

3. Commercial Case

Section 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 an update on the outcomes of the procurements run during the Enactment Phase.

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

Procurement Summary

3.1. A number of services and capabilities have been identified across the programme that will be required for build, test, integration and assurance activities during the DBT phase and early years of operations of the CSS. The majority of these are being procured by DCC and are in the final stages of the procurement process. The programme co-ordination and Licensed Party Assurance projects have been procured by Ofgem. The procurement processes followed, show that there is sufficient capability, capacity and appetite in the market to competitively deliver the requirements of the programme.

3.2. Under its licence, DCC is responsible for procuring systems and services required to deliver the new switching arrangements including the:

- CSS Registration Service and Address Service
- Service Management
- System Integration Service
- Core Systems Assurance

3.3. All of the procurements have been carried out with particular regard for the total cost of ownership, the cost to industry, ability to novate contracts and adaptability to future market changes.

Required capabilities

3.4. The overall approach to the procurement of the CSS was set out in the Switching Programme Procurement and Commercial Strategy. This described the strategy and plan for sourcing the specified CSS solution, including all the products and services needed to design, build, test, implement, operate and support the E2E switching arrangements, and to establish commercial or regulatory relationships with existing service providers. The capabilities identified are set out in table 1 below with a description of the route followed and the progress of this.

Table 1: Capability Requirements

Capability	Requirements Summary	Progress
Provided for by DCC		
Registration Service	The design, build, test, transition and operation of the Registration Service which manages the gas and electricity registrations and associated data (including addresses and RMPs).	Procured by DCC as Fundamental Registration Service Capability. Preferred bidder has been selected and contract is being negotiated. The preferred bidder offers a combined Address and Registration Service. We expect the licences necessary to support reliability improvements to be in place by the end of July 2019.
Address Service	The design, build, test, transition and operation of the Address Service, which manages a complete list of GB standardised addresses and performs address matching.	Procured by DCC as Fundamental Registration Service Capability. Preferred bidder has been selected and contract is being negotiated. The preferred bidder offers a combined Address and Registration Service. We expect the licences necessary to support reliability improvements to be in place by the end of July 2019.
Switching Operations Service	The design, build, test, transition and operation of services and systems that are required to manage the live switching arrangements including first-line service desk, centralised Service Management System, self-service interface portal and interfaces with existing service providers.	This is being provided through a mix of DCC and externally procured contracts. DCC is providing elements which can be justified to be delivered by itself more economically and efficiently than an externally procured provider. This includes the service desk. DCC is externally procuring the Service Management System and the Self-service Portal. This procurement is ongoing and at the contract award stage.
Systems Integration Service	The management of the integration and testing, data migration and transition activities of systems and services across the CSS components and between the CSS Service Providers and existing service providers, including co-ordination of interfaces with Market Participants.	This has been procured by DCC. A contract has been signed with Netcompany[17] and mobilisation is taking place ahead of DBT.
Service Infrastructure	The design, build, test, transition and operation of the infrastructure on which the Registration and Address Services can operate.	These will be embedded within the combined Registration and Address Services and are accounted for within the procurement and contracting of the Registration and Address Services.
Core Systems Assurance Service	Providing assurance of the readiness and progress of the new and existing service providers to participate in the various stages of integration, testing	This has been procured by DCC. The contract has been awarded to Expleo.

[17] https://www.smartdcc.co.uk/news-and-insights/news/netcompany-have-been-appointed-as-dcc-s-systems-integrator-provider/

Capability	Requirements Summary	Progress
	and transition into live operations of the new switching arrangements.	
Provided for by Ofgem		
Programme Coordinator	Providing industry coordination, PMO, assurance and advisory services to ensure the successful delivery of the DBT phase and transition to the enduring governance of the new switching arrangements.	Procurement has concluded and a Service Provider appointed (PwC). This will be contract managed by Ofgem and funded through the REC from April 2019.
Licensed Party Assurance	Providing assurance of the readiness and progress of the Licensed Parties, defined below, to participate in the various stages of integration, testing and transition into live operations of the new switching arrangements.	This is currently bring procured by Ofgem and is at contract award stage. This will be contract managed by Ofgem and funded through the REC from April 2019.
Existing services		
Communications Network Service	The management of the design, build, test and operation of the Communications Network(s) which is required to enable transmission of data to/from the CSS. This includes relevant security provisions.	This is covered below. These requirements will be met through DCC forming User Agreements with existing Network Providers.
Existing Service Providers	The switching ecosystem includes existing Service Providers (e.g. Xoserve, Electralink, Gemserv and DSP) with which DCC must establish operational relationships. DCC is not responsible for their design, build, test, transitional or data cleanse activities (except for the DSP).	A Co-operation Agreement is being formed between the existing and new service providers setting out the principles and standards for joint working during DBT. The agreement will be incorporated into the E2E Integration Plan referenced within the REC.

3.5. The approach set out in the Switching Programme Procurement and Commercial Strategy was further elaborated in the Sourcing Strategy for each procurement project which described and provided an analysis of the most appropriate options for the procurement via a formal tender process. The analysis examined ways of arranging the work packages into lots for the procurement and recommended the most appropriate lot or lots for the CSS procurement. This analysis included insight gained during market engagement.

Procurement processes

DCC procurement process

3.6. For the CSS Registration and Address services and System Integration service a three stage procurement process was followed:

1. **Pre-Qualification Questionnaire (PQQ):** to select a shortlist of bidders from all those that had expressed an interest in the procurement through various market engagement events;

2. **Invitation to Tender (ITT):** to reduce the shortlist of bidders down to the bidders for each lot of the procurement; and
3. **Best and Final Offer (BAFO):** to select a preferred bidder for each of the lots. As part of this phase of the process all the remaining bidders were invited to deliver a demonstration of how they would address various aspects of the requirements.

3.7. Service Management System procurement followed stages two and three above (ITT and BAFO). For Core Systems Assurance procurement a single stage ITT process was followed.

3.8. The CSS Address and Registration service procurement included a question to bidders on how they would minimise incremental costs to industry from the implementation of their proposed solution. The intention of this was to assess the total cost and impact of the proposed solutions on industry. As discussed in sections 1 and 2 above, the ability of the CSS to adapt to potential future market changes has been a key consideration. This has been reflected at all stages of the procurement process, through questions, case studies and scenario tests. Adaptability, as well as economic and efficient change management are key contract principles. The principle of economic and efficient change management has been incorporated across the contracts to help to ensure that (at a cost that is not disproportionate to any expected benefit) sufficient flexibility to adapt to changing services user requirements over the duration of the contract can be accommodated.

Ofgem procurement process

3.9. Both the Programme Coordinator and the Licensed Party Assurance Provider were procured from the Ofgem procurement frameworks following an ITT and BAFO stage process. The evaluation and contracts in place account for economic and efficient change management.

Communication network

3.10. The CSS has been 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)), or other networks that meet the agreed minimum requirements, to be added subsequently, at the choice of the end user.

3.11. This approach has 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. DCC has considered the cost implications of this approach and advises that there is a small (approximately £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.

3.12. DCC has carried out detailed market testing with the existing industry networks and concluded that they will meet the technical requirements for the programme and that no commercial, financial or governance issues would get in the way of this approach. We have included an obligation within DCC's licence to enter into and maintain agreements for a secure and robust Switching Network that meets the requirements set out within the REC. There is also an obligation that if it is not

possible to enter into and maintain these arrangements then DCC should seek to competitively procure appropriate network access.

3.13. DCC are working towards finalising agreements with the existing industry network providers.

Commercial management

3.14. Transition from the preliminary contract award phase to the contract management phase is a key element of the successful commencement of any project. Contracts have been formed with all new delivery partners that define the service requirements, roles, responsibilities, timescales and financial incentives. Both Ofgem and DCC have developed a process to ensure a smooth transition to the relevant contract manager.

3.15. DCC's role during DBT will include contract management of the service providers it has procured, including performance management and issuing milestone completion certificates, as well as associated payments.

3.16. Having a strong relationship with new and existing service providers, and working closely and co-operatively with them throughout the programme, will ensure that minor issues can be quickly resolved and more significant issues can be efficiently flagged, tracked and resolved with minimal disruption. This relationship and related processes will enable the programme to benefit from any innovation and developments from the service providers where applicable.

3.17. Key programme and service provider milestones have been identified with financial incentives / penalties placed against these for the relevant service provider. To help manage critical milestones across the programme, we endeavoured to ensure all service providers with a role (direct or indirect) in delivering that milestone are appropriately incentivised. These critical milestones have also been incorporated into the DCC incentives framework which is further set out in Section 4 below.

4. Financial Case

Section summary

This section sets out our approach to cost control across the programme. It also covers the funding and price control arrangements for DCC during DBT and consideration for steady state operations.

Cost Control within the Programme

4.1. The Programme will impose costs on a wide range of parties. Some of those costs are wholly within Ofgem's control, others are only partially within our control. We set out here a general approach to cost control in relation to the different categories of cost.

Cost Categories

4.2. **Costs within Ofgem Control**: Costs incurred directly by Ofgem, including contracts let by Ofgem but funded through the REC, such as the Programme Coordinator contract, are wholly within Ofgem control. We will set clear budgets in relation to these costs and manage to those budgets. Internal Ofgem costs will be managed internally and reported on internally and to the Delivery Group. Costs funded by the REC will be managed by Ofgem and reported to the interim RECCo Board and to the Delivery Group.

4.3. **Costs subject to price control:** Costs incurred by DCC in relation to its internal activities and its external contractors are within the control of DCC. DCC is subject to an ex post plus price control regime in respect of these costs, which is set out in more detail below. These costs will be managed by DCC and reported on internally and to the Delivery Group, as well as being subject to Ofgem's price control process.

4.4. **Costs impacted by programme decisions but not within programme control:** all other parties participating in the programme are responsible for their own costs. Existing system providers have their own governance mechanisms for ensuring cost control. We expect those mechanisms to be used to ensure that costs incurred in delivering Switching Programme outcomes are proportionate and efficient. Licensed parties will be responsible for managing their own costs. We recognise that decisions taken within the programme, for example in relation to design or timing, may have cost implications for licensed parties. We will operate a change control process that ensures we have an impact assessment for any proposed change. It is for parties who may be impacted by a change to identify, and quantify that impact. All change decisions will take appropriate account of the costs as well as the benefits of the change. We will endeavour to ensure that the overall costs of the programme do not escalate unless there is a corresponding increase in the benefits to be realised.

DCC

DCC Cost Recovery

4.5. It is important that DCC is appropriately funded, and has clear obligations for its role set out within its licence so that it is not impeded in meeting its obligations. The obligations on DCC set out within its licence fall under the term Centralised Registration Service (CRS).[18] Our modifications to the DCC licence in December 2018[19] mean that DCC's allowed revenue term includes the economic and efficient expenditure required to discharge obligations in relation to the Switching Programme. DCC is therefore able to charge industry parties for this expenditure.

4.6. We set out in our 2018 regulation and governance consultations that, in the short-term until RECv2.0[20] comes into effect, the existing charging arrangements would be utilised for DCC to recover its costs in relation to the DBT phase. The arrangements and methodology for DCC's cost recovery in relation to the operation of the CSS in steady-state operations will be fully reviewed and set out within the enduring REC v2.0 due to come in to effect at CSS go-live, currently planned for 2021.

4.7. Under the current funding arrangements, the costs associated with the development, documentation and procurement of the CRS are being met by users of DCC Services through monthly fixed charges. The methodology for determining these charges are set out as fixed costs within Section K (Charging Methodology)[21] of the Smart Energy Code. This methodology will continue until the new methodology is set out within RECv2.0.

Price control

4.8. In extending DCC's licence obligation to cover the DBT phase and steady state 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. During the DBT and post-implementation phase we will use an ex post plus arrangement to ensure that the costs DCC recovers are done so economically and efficiently.

4.9. The ex post framework requires DCC to estimate 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

[18] The CRS term 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 and the other services that DCC is obligated to provide including System Integration and Core Systems Assurance.
[19] https://www.ofgem.gov.uk/publications-and-updates/decision-and-notice-licence-modifications
[20] RECv2.0 will supersede and replace the transitional requirements set out in RECv1.0 with the enduring requirements to make the new switching arrangements work and provide governance for the parties involved at the time of go-live of the new systems and processes.
[21] https://smartenergycodecompany.co.uk/the-smart-energy-code-2/

are reconciled with the revenue DCC actually receives through adjustments in its charges to users in subsequent years.

4.10. This variant of ex post requires DCC to develop a business case in advance which is then reported against at the programme level. Aspects of these reports will be made available to the relevant programme governance groups during the DBT phase. This reporting should include progress against time, cost and quality for DCC's identified deliverables and activities. This is with the aim of making costs incurred, and cost changes relative to the baseline, more visible to stakeholders.

4.11. 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 DBT phase of the Switching Programme this will be done against a zero baseline basis, ie all incurred costs should be justified.

4.12. We have not made a decision in relation to a potential price control regime after the post-implementation period.

DCC Business Case

4.13. Under these price control 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 DBT phase, as for earlier phases of the programme, the price control review will be against a zero baseline, ie all incurred costs should be justified.

4.14. DCC is in the process of developing its Business Case for the DBT phase of the programme. This business case will set out DCC's forecast activities and costs relating to its role in the DBT phase. The business case corresponds to the DBT costs that DCC has forecast in its updated response to our Request for Information (see Section 2). The high-level principles underpinning the business case have been discussed with the Commercial Forum. DCC is aiming to consult on its DBT Business Case in spring 2019 when there is greater clarity on external service provider costs. This consultation period will include a workshop session with interested stakeholders. Following the consultation DCC will consider all comments including input from the stakeholder session with the aim of baselining the business case in May 2019 (ahead of mobilisation for DBT). These costs will be reviewed throughout the DBT phase and will be re-baselined in the event of any material changes to the programme timelines, or DCC's scope of activity.

4.15. The DCC Business Case will be reported and tracked at the programme level including updates being provided to the relevant stakeholder governance groups. These monthly reports will show incurred costs, delivery progress (against time and quality), updated forecast costs and planned activity. A similar model was followed during the DCC Business Case for the Transitional Phase[22] of the programme which

[22] https://www.smartdcc.co.uk/smart-future/switching-programme/switching-business-case/

helped ensure strong cost control and accountability with the programme cost reducing over successive iterations from £24m to £16m[23].

4.16. Ahead of entering into steady state operations DCC will develop a business case and cost forecast for this period.

Margin and Incentives

4.17. Our May 2016 decision document[24] setting out DCC's role in the Switching Programme said that DCC can reasonably expect a margin for its Switching Programme activities which is commensurate with the degree of associated risk. We intend to carry this principle into the DBT phase of the programme. This margin level will be adjusted subject to DCC's overall performance based on an incentive framework. DCC will be able to earn a maximum margin of 12% on Internal Costs that have been economically and efficiently incurred.

4.18. The incentive framework allows for a level of risk sharing with 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 in meeting set delivery milestones. DCC's margin is placed at risk against subject to its performance in meeting five delivery milestones to a required quality by a set date.

4.19. We consulted on our proposals for the margin and incentive framework for the DBT phase in October 2019.[25] We are currently considering the responses with the intention of issuing a direction on this in early spring 2019.

4.20. An incentive regime for the post-implementation period and steady state operation will be developed with input from stakeholders as our understanding of how the service will be run increases.

REC funding

4.21. The RECCo will serve as the corporate vehicle for ensuring the proper, effective and efficient implementation and ongoing management of the REC. In particular, during the implementation of the Switching Programme, the RECCo costs will fall into two main categories:

- administrative arrangements to support the establishment and operation of the REC and of RECCo itself; and
- services to support the delivery of the Switching Programme.

4.22. Once the new switching arrangements are implemented and RECv2.0 takes effect, which is due to be mid-2021, the RECCo will also be responsible for the payment of

[23] https://www.smartdcc.co.uk/media/2858/schedule_of_changes_-_switching_internal_business_case__002_.pdf
[24] https://www.ofgem.gov.uk/publications-and-updates/decision-dccs-role-developing-centralised-registration-service
[25] https://www.ofgem.gov.uk/publications-and-updates/switching-programme-regulation-and-governance-way-forward-and-statutory-consultation-licence-modifications

other REC governed services, including those of the CSS. The RECCo will recover such costs from funding parties in accordance with the relevant charging methodology.

4.23. In the absence of a REC Code Manager, Ofgem consulted on the 2019/20 budget in January 2019.[26] Invoices will be issued to gas and electricity suppliers as REC funding parties, allocating costs in accordance with the methodology set out in the REC.

4.24. The programme support costs for the procured Programme Coordinator and Licensed Party Assurance providers (outlined in Section 3) will form the largest elements of the REC budget for the first two years of operation, until such time as the CSS arrangements go live and Ofgem exits as the Programme Sponsor role.

Funding arrangements for electricity DNOs, Gas Transporters and their agents

4.25. The Gas Transporters and electricity DNOs hold monopoly positions in the energy industry, and so we regulate their revenues through price controls. We describe their funding arrangements in the Outline Business Case and have therefore not replicated this in this document.

4.26. However, we want to update one area in relation to Xoserve's costs. Following the October 2013 review of Xoserve's funding and governance arrangements, all industry users of Xoserve's services jointly fund Xoserve's activities under the Data Services Contract. Based on the "user pays" principle, it has been agreed under the Data Services Contract that Gas Shippers will fund Xoserve's delivery costs and operational costs associated with the Switching Programme.

[26] https://www.ofgem.gov.uk/system/files/docs/2019/01/rec_19-20_budget_consultation_1.pdf

5. Management Case

Section summary

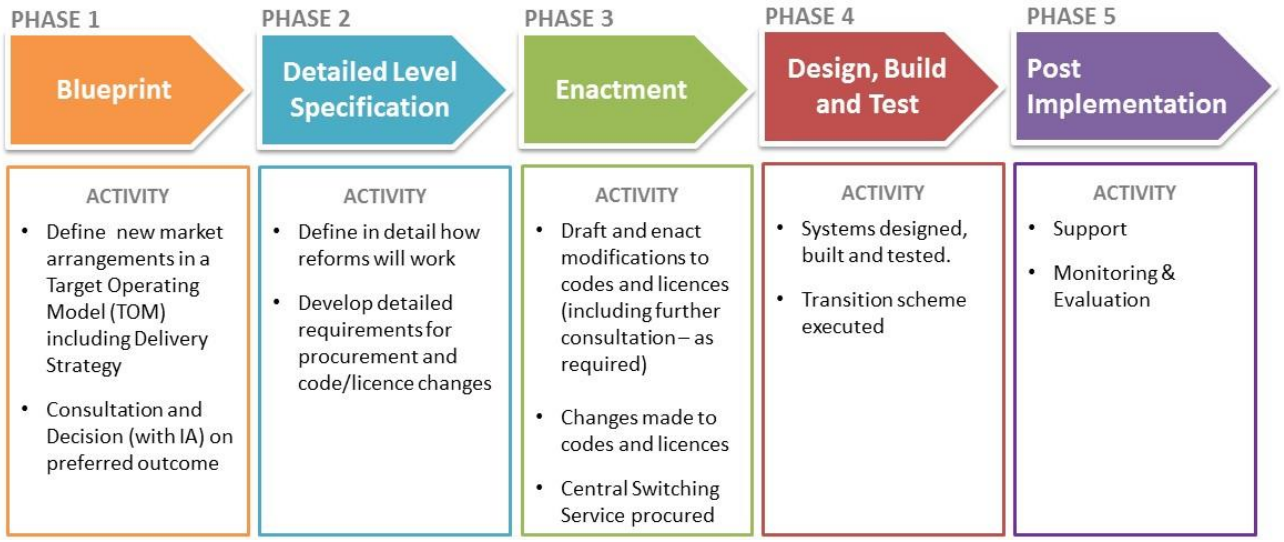
This section provides an update on the DBT plan, any changes to the governance and stakeholder engagement mechanisms set out in the Outline Business Case, and a summary of relevant REC developments.

Management Strategy

5.1. We are conducting the programme in five key phases, which are shown in figure 1 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 and Detailed Level Specification phases of the programme.

5.2. 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 1: Programme Phases



DBT Plan

5.3. The DBT phase of the programme will commence with the successful completion of entry criteria for the phase. The DBT entry criteria have been finalised following discussions with industry in spring 2019 and include contract signature on the CSS provider contract(s).

5.4. During the DBT phase, all participants will need to assemble and test the components that will form and interact with the CSS and the existing systems. The participants for this phase will include licensed parties, specifically suppliers, and providers of core data services (ie UK Link and the Meter Point Registration Service (MPRS), Data Enquiry Service (DES) and Electricity Central Online Enquiry Service (ECOES), DSP and the CSS Provider itself).

5.5. We have developed, with input from programme participants, a high-level "left to right" plan for the DBT phase, building on the delivery products that were developed during the Detailed Level Specification phase. It is anticipated that a further, more detailed plan will be produced in the months following the CSS, Programme Coordinator and SI mobilisations.

5.6. 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.

5.7. These products consider two types of activity occurring within the DBT phase below:

5.8. **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.

5.9. **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 Systems Integration and Programme Coordinator functions. 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, shippers and agents) will be established in an ordered fashion.

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

2. 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 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 (GONG) 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.

3. 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.

4. 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.[27]

5. 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.

5.10. The current programme plan is included in figure 2 below. This reflects our current expected timetable of the programme.

5.11. The 2019 licensed party view of the plan is included at figure 3 below. This version provides an industry specific view of the plan, the purpose of which is to make it easier for parties to understand what they need to deliver during 2019.

5.12. We will ensure that programme participants also have an opportunity to input into this planning work ahead of finalisation of the DBT plan. We will continue to challenge the programme timelines to ensure we deliver change as soon as possible.

[27] https://www.ofgem.gov.uk/publications-and-updates/e2e-delivery-products

Figure 2: DBT Plan

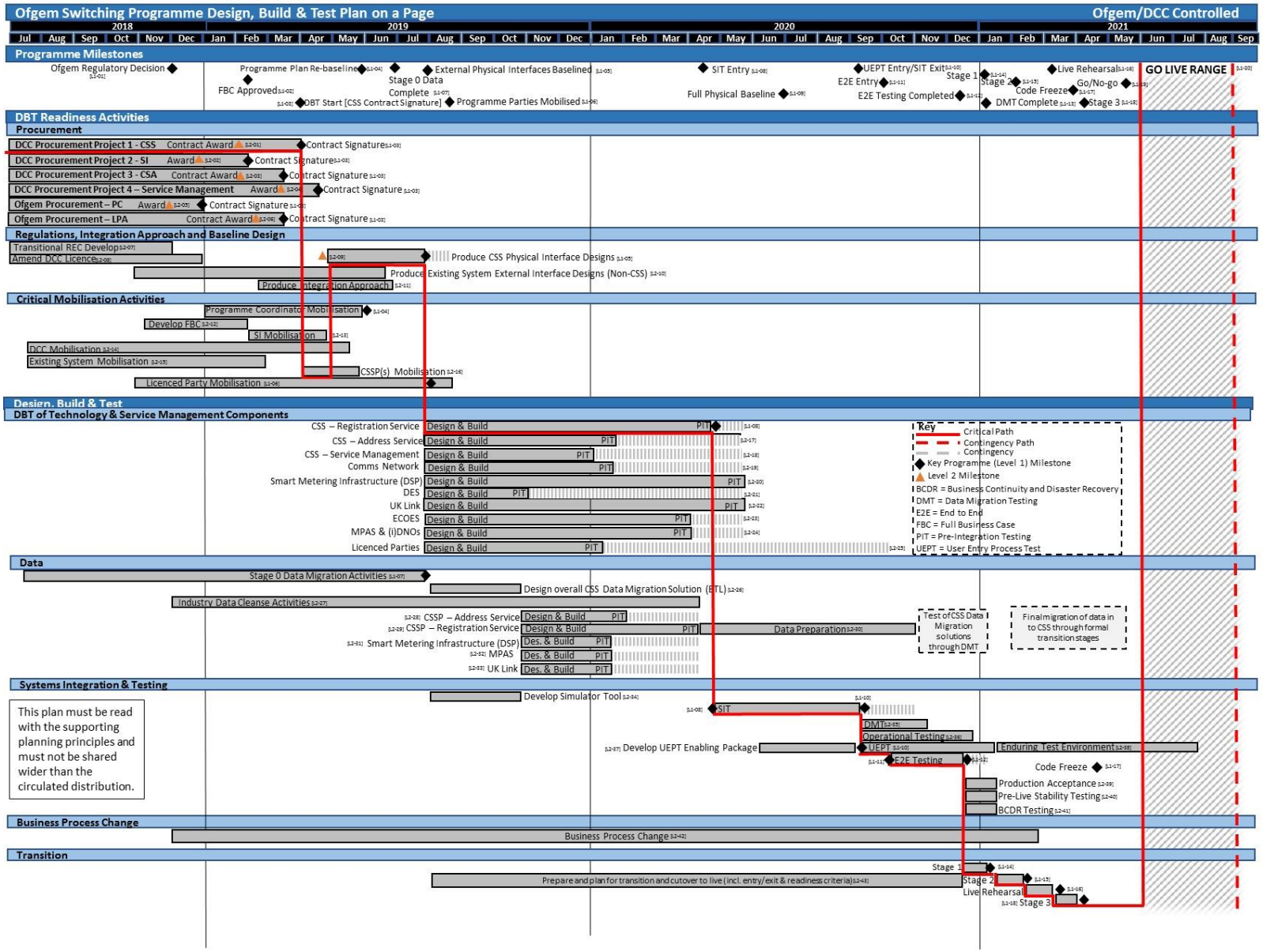
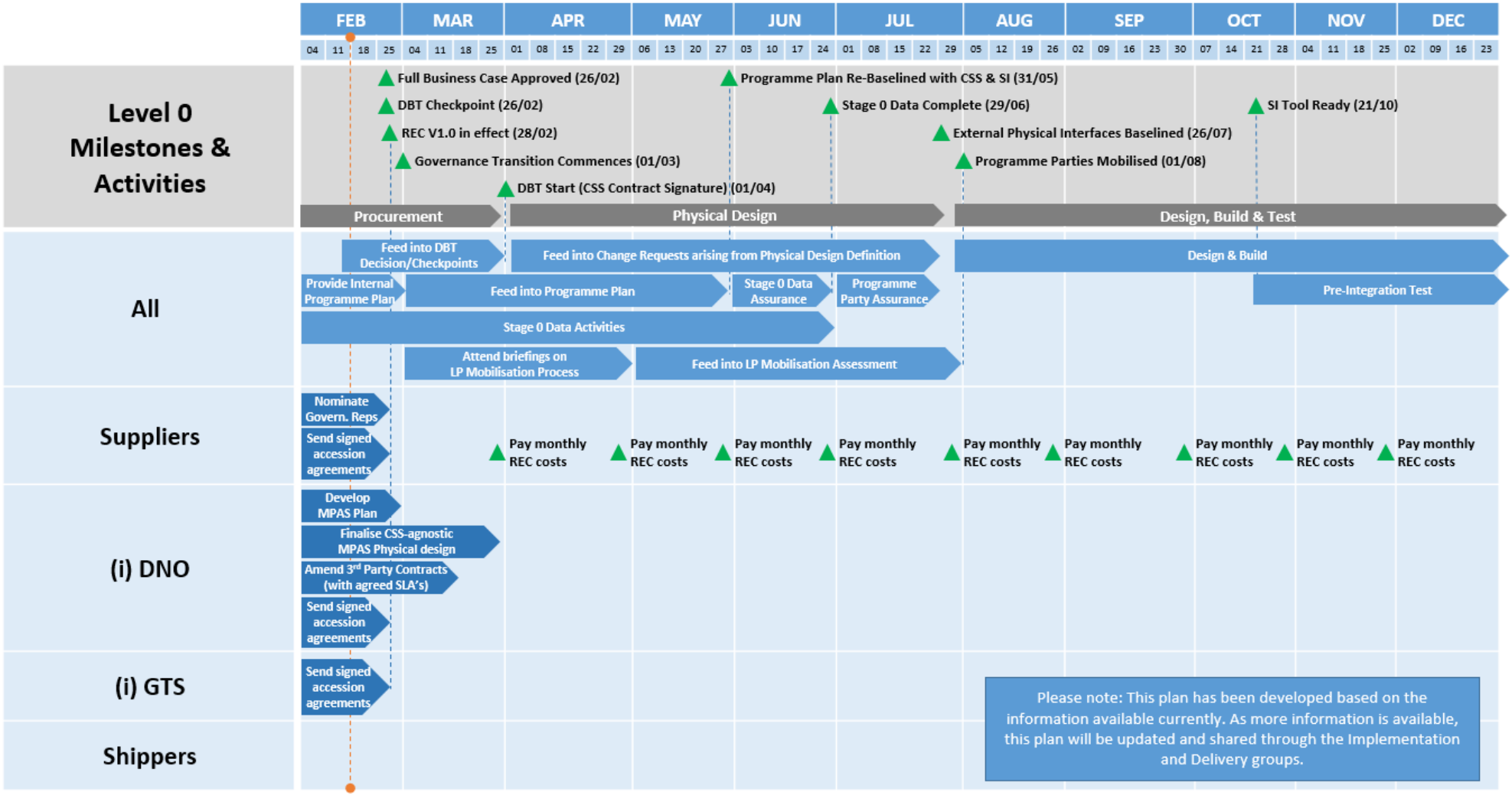


Figure 3: Industry Swimlane Programme Plan

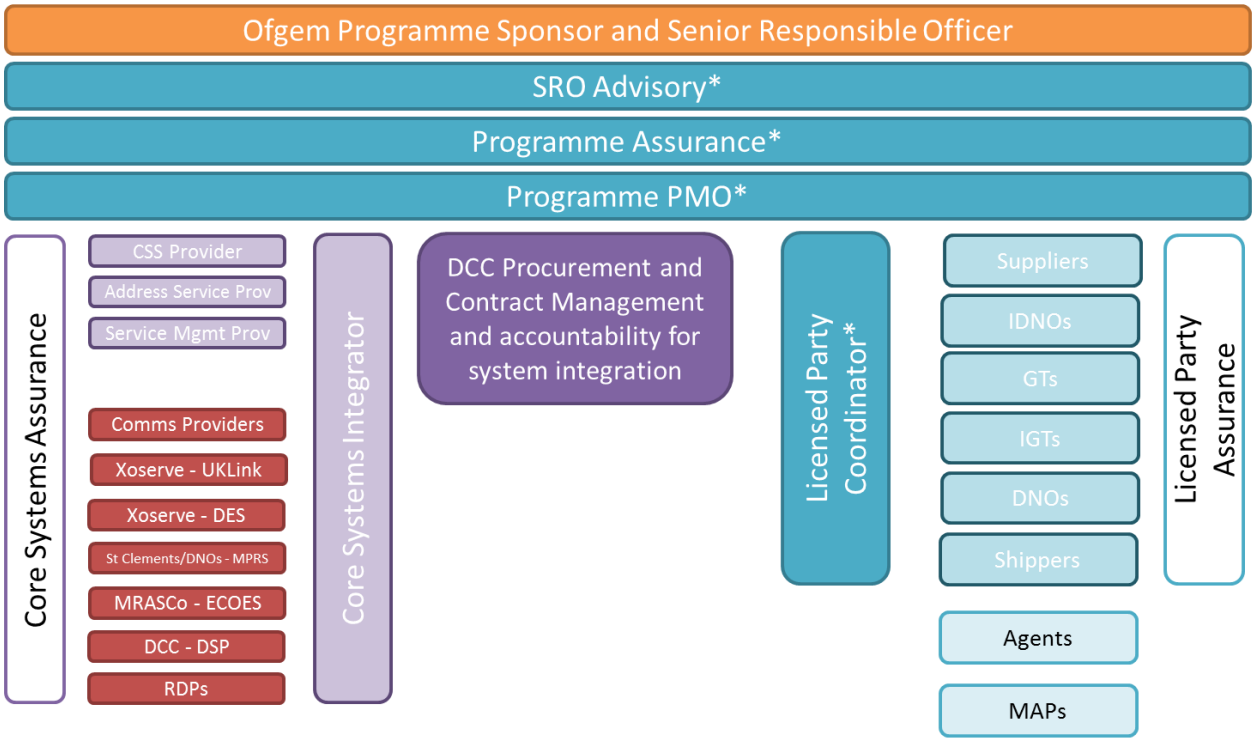


DBT Governance Structure

Roles and responsibilities

5.13. 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 4: DBT Roles and Responsibilities



5.14. 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 (SRO Advisory, Programme Assurance, Programme PMO and Industry Coordination)
- SI
- CSS component providers
- Licensed parties such as Suppliers, Shippers, Gas Transporters and independent Gas Transporters (iGTs), DNOs and independent Distribution Network Operators (iDNOs)
- Xoserve
- Electralink as provider of the Data Transfer Network (DTN)
- DNOs as MPRS providers (or any other Meter Point Administration Service) and any provider that is an agent of the DNOs
- MRASCo as provider of the ECOES system
- DCC DSP

- Registration Data Providers
- Core Systems Assurance Provider
- Licensed Party Assurance Provider

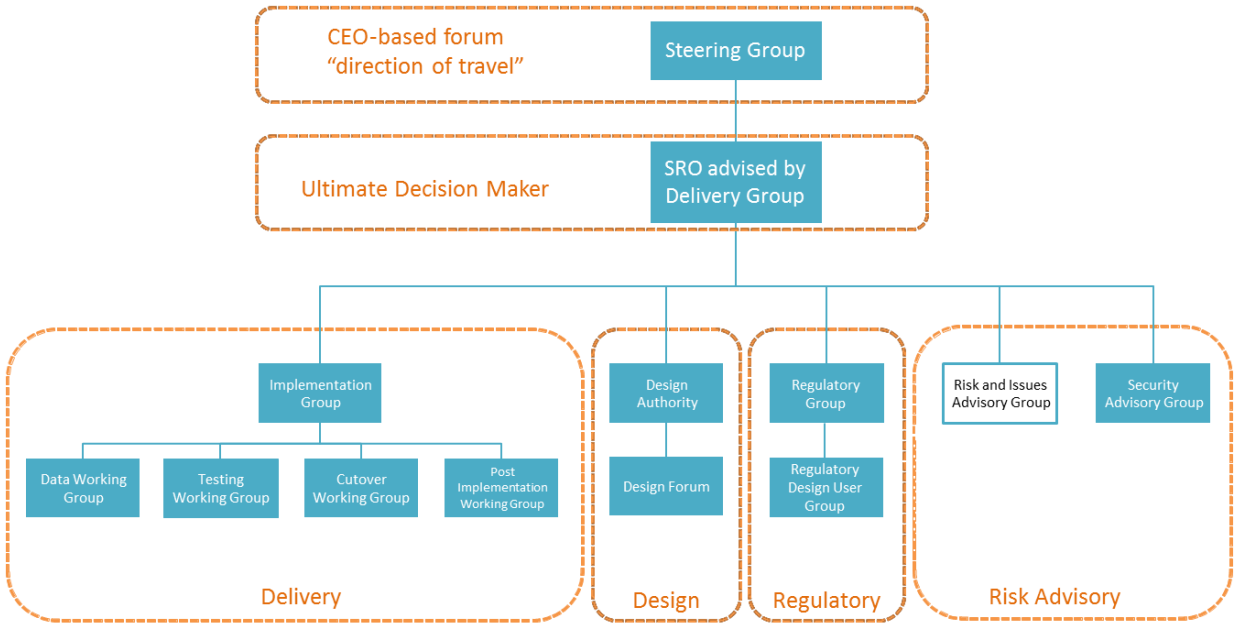
5.15. Ofgem will continue to be the Programme Sponsor and ultimate decision maker. The decision-making authority sits with the SRO for the programme within Ofgem. We believe that Ofgem is best placed to make decisions in the best interests of consumers, balancing the risk of an ineffective delivery and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

Governance

5.16. We will transition our governance model to inform our decision-making during the DBT phase. The final 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.

5.17. Delivery specific decisions taken in the overlap of the Enactment and DBT phases will be taken through the DBT governance structure. Where there is a remaining policy matter requiring decision, this will be taken by the SRO in accordance with Ofgem's normal policy making processes. The DBT governance model set out below shows the functions and membership of the baselined DBT governance groups.

DBT Governance Structure



5.18. More detailed information on function and membership of the individual groups making up the governance structure is described below. It is anticipated that the Terms of Reference for each group will be drafted prior to DBT entry. The expectation is that for any new group the Terms of Reference is reviewed the first

meeting to take into account the members expectations with the functioning of the group.

5.19. If parties would like to understand more about the DBT governance structure, please contact us at the Switching Programme inbox at switchingprogramme@ofgem.gov.uk, and we will respond to your query.

Steering Forum

Chair	Secretariat	Representatives	Purpose
Dermot Nolan	Ofgem during Enactment transitioned to Programme Coordinator for DBT	• Industry CEOs and Board level representatives (one person per organisation) • DCC CEO and senior personnel • Existing System CEOs and senior personnel • Citizen's Advice • Ofgem Switching SRO • Ofgem Switching Programme Director	Utilisation of existing forum to discuss progress of the programme. No formal decision making authority. Increase frequency of meetings to quarterly in the lead up to and during the Delivery phase of the programme. This is done to respond to the pace of the DBT phase of the programme. Used to set tone of programme, and communicate high level messages to industry. Industry representation should be open to any senior level personnel from the programme parties who wish to attend.

Delivery Group

Chair	Secretariat	Representatives	Function
Rob Salter-Church (SRO)	Programme Coordinator	**Formal meeting** • Ofgem – SRO • Ofgem – Programme Director • Ofgem – Implementation Lead • Ofgem – Critical Friend • Ofgem – Legal Representative • Programme Coordinator - SRO Advisory Lead • Programme Coordinator Lead • DCC - Executive Board Member • DCC – Programme Director • CSS Provider(s) (when invited) • Systems Integrator • Gas Systems Representative • Electricity Systems Representative • Communication Network Representative • Large Supplier Representative • Medium Supplier Representative • Small Supplier Representative • Non-dom Supplier Representative • Gas Shipper Representative • GT Representative • iGT/iDNO Representative • DNO Representative	**Formal meeting** SRO decision making over high level delivery milestones. This could include fundamental changes to the design baseline or the movement of key milestone dates within the programme plan. **NB** – Existing Ofgem governance groups will retain policy only decisions (as necessary) . Representation model is aimed at gaining access to advice on delivery risks for participants (industry and system providers). The industry representative model structured around the equal representation from current licenced parties, with a desire to balance the need to discuss delivery risk against the risk of capture from incumbent suppliers.
		Broadcast Webex (2 days prior to meeting) • Open to all • No discussion / broadcast only	**Broadcast Webex** Webex to provide cross-programme communications on progress to any interested party to the programme. Any questions/queries must be progressed through relevant Implementation Group representatives.

Implementation Group

Chair	Secretariat	Representatives	Function
Rachel Clark (Programme Director)	Programme Coordinator	**Formal meeting** • Ofgem – Programme Director • Ofgem – Implementation Lead • Ofgem – Data Lead • Programme Coordinator • DCC – Programme Director • CSS Provider(s) (when invited) • Systems Integrator • UKLink, DES and Gemini Representative • ECOES Representative • MPAS Representative • Communication Network Representative • Large Supplier Representative • Medium Supplier Representative • Small Supplier Representative • Non-dom Supplier Representative • Gas Shipper Representative • GT Representative • iGT/iDNO Representative • DNO Representative	**Formal meeting** Decision making authority over: • lower level Programme Plan milestones Decision making over low level delivery milestones. Where there is an impact to design or high level milestones, this decision should be escalated to the Delivery Group. Decision sits with Ofgem chair. Industry representation model focused around advice on implementation risk. Three supplier model represents the need to advise on the different delivery issues that different sections of the market face, based on the scale of their operation.
		Broadcast Webex (2 days prior to meeting) • Open to all • No discussion / broadcast only	**Broadcast Webex** Webex to provide cross-programme communications on progress to any interested party to the programme. Any questions/queries must be progressed through relevant Implementation Group representatives.

Design Authority

Group	Chair	Secretariat	Representatives	Purpose

Design Authority	Arik Dondi	Programme Coordinator for DBT	• Change Requestor on relevant item
			• Ofgem Change Lead(s)
			• DCC
			• Technical advisors on relevant CRs
			• Existing system representatives
			• Industry representatives
			  • Suppliers x 1
			  • DNO x 1
			  • Gas Shipper x 1
			  • GT x 1
			  • iGT/iDNO x 1
			• Representatives on invitation by Chair e.g. Meter Agents, MAPs
			• Programme Coordinator
			• Systems Integrator (once appointed)
			• CSS Provider (once appointed)
			• Service Management Provider (once appointed)
			• REC Code Manager (once appointed)
				Decision making over baseline design change requests within the agreed Terms of Reference and with no impact to delivery timeframes.
				
				Decision made by Chair on advice from the Design Authority.
				
				Change can be proposed by any party to the programme.
				
				Supplier representative limited to one, as functionality shouldn't depend on size or nature of market share

Regulatory Group

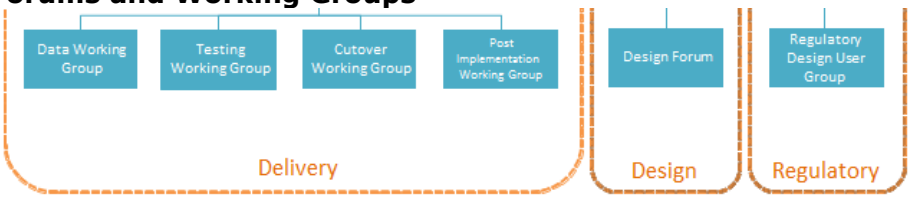
Group	Chair	Secretariat	Representatives	Purpose

Regulatory Design Group	Jon Dixon	Ofgem during Enactment transitioned to Programme Coordinator for DBT	• Ofgem
			• DCC
			• Existing system representatives
			• Industry representatives
			  • Suppliers x 2 (domestic/non-dom)
			  • Gas Shipper x 1
			  • GT x 1
			  • iGT/iDNO x 1
			  • DNO x 1
			• Technical and legal advisors
			• Existing Code representatives
			• Programme Coordinator
			• Systems Integrator
			• CSS Provider (once appointed)
			• Service Management Provider (once appointed)
			• REC Code Manager (once appointed)
			• Representatives on invitation by Chair
				Decision making authority to decide on the detail in the Retail Energy Code and associated consequential change (e.g. SCR changes).
				
				Decision making over REC with no material change in scope or impact to delivery timeframes.
				
				Decision made by consensus or if not, Ofgem Chair makes the decision. Right of appeal to the Delivery Group.
				
				Supplier representation limited to two, as the key differences from a regulatory design experience is with respect to the different requirements from the domestic and non-domestic sectors.

Security Advisory Group

Group	Chair	Secretariat	Representatives	Purpose
Security Advisory Group	Jenny Boothe	Programme Coordinator for DBT	• Ofgem • DCC • Existing system representatives • Industry representatives • Programme Coordinator • Systems Integrator • CSS Provider (s) (once appointed) • Representatives on invitation by Chair	Decision making authority to decide on the detail of the Information Risk Assessment and Privacy Impact Assessment. Additionally consider whether the security approach remains appropriate for the End to End Switching Arrangements throughout the Design, Build and Testing Phases of the Programme

Forums and Working Groups



Group	Chair	Secretariat	Representatives	Purpose
REC Design Working Group	Jon Dixon	Ofgem during Enactment transitioned to Programme Coordinator for DBT	• Ofgem • DCC • Open to all programme participants who wish to participate	The purpose of this Working Group is to develop and refine the enduring version(s) of the REC.
Design Forum	Jenny Boothe			The purpose of the Design Forum is to consider the impact of proposed change requests on industry and downstream systems, and advise as to the potential risks and benefits with respect to the proposed change requests.
Data Working Group	Andrew Amato			The purpose of this Working Group is to facilitate the implementation of data activities with respect to the Switching Programme.
Testing Working Group	Ofgem			The purpose of this Working Group is to facilitate the implementation of testing activities with respect to the Switching Programme.
Cutover Working Group	Ofgem			The purpose of this Working Group is to facilitate the implementation of cutover activities with respect to the Switching Programme.
Post-Implementation Working Group	Ofgem			The purpose of this Working Group is to facilitate the implementation of post-implementation activities with respect to the Switching Programme.

The REC

5.20. We have brought into force licence changes that require programme participants to accede to the new REC and brought into force the code's provisions for the DBT phase of the programme. These provide the "duty to co-operate," a number of requirements that obligate programme participants to work constructively with the programme and its co-ordination and assurance functions.

5.21. When the new switching systems and processes go live in 2021, we will bring a further version of the code into force (RECv2.0) that will contain the detailed provisions and requirements to underpin these processes. We are also using the new code as an opportunity to simplify and rationalise the code landscape by merging most of the MRA and SPAA into the REC and closing down those codes (with some of their content being included in other codes).

5.22. We have been clear that we want the REC to be an innovative and best-in-class code. This means that we want it to be drafted in plain English, we want it to be created in a way that will allow the use of digital tools to make it as accessible and

easy to use as possible in the future, and we want to create governance that enables it to keep up to date with developments in the industry as efficiently as possible.

DCC

5.23. We consulted in 2018 on modifications to the Smart Meter Communication Licence ("DCC licence") to extend its role into DBT and early years of live operations. These modifications have now come into effect and allow DCC to enter into contracts with the selected service providers to oversee the development of the CSS, and to be responsible for the provision of the new switching service in the early years of steady state operations. We also modified Licence Condition ("LC") 21 within the DCC licence to obligate DCC to become a party to the REC. LC 21 also extended the Duty to Co-operate onto DCC.

5.24. DCC's role in DBT will be in the context of Ofgem remaining, until the end of the post-implementation phase, the overall programme sponsor and design authority, with implementation supported by independent coordination, assurance and integration functions. This is set out in detail within this chapter.

5.25. Decisions on the long-term future of the provision of the CSS are likely to be affected by any changes in the regulation of the retail energy market. We will keep under review whether the Smart Communications licensee remains the right party to be responsible for operation of the CSS. The end of the current licence term (September 2025) provides a likely opportunity for such a review. The additional text added to Part Two of DCC's licence (terms in respect of revocation) and to the Authority's power to direct in LC 15 will allow for DCC's switching obligations to be split out from its licence if or when required. This would include if the current DCC licence term were to be extended beyond September 2025. Consideration of any change would be made well in advance of 2025 to allow for a decision that, if required, would give enough time for a smooth transition ahead of this date.

Stakeholder Engagement

5.26. Ofgem has set out the following principles for engagement with Switching Programme stakeholders.

- Stakeholder engagement should be risk-based and pragmatic, with the assessment based on the overall risk to consumers and the market;
- The Switching Programme should seek to be open and transparent to stakeholders. Where there are commercial, competitive or security matters which require non-disclosure, the justification for these non-disclosures should be clearly articulated;
- Stakeholder engagement should be inclusive and occur at all levels of the programme, from detailed engagement at working groups to high-level strategy engagement at senior officer level;
- Stakeholder engagement should be tailored around categories of stakeholders.

5.27. The appointment of the Programme Coordinator will bolster Ofgem's capability to undertake substantive stakeholder engagement. The Programme Coordinator will be expected to interact with, and manage the progress of, programme participants throughout the DBT phase and early post-implementation stage.

5.28. The Programme Coordinator will need an eagle eye over this landscape to ensure they have end-to-end visibility of emerging risk trends, with the ability to deep dive into specific issues.

5.29. With the appointment of PwC as the Programme Coordinator, it has begun the development of a programme "portal". At this stage, the proposed system is Salesforce, which will provide participants with a 'one stop shop' for programme information and documentation. The aim is to deploy the portal in the coming months in order to support the entry to Programme Participants Mobilised milestone in August 2019.

Success Factors

5.30. As noted in Section 1, the 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.

5.31. A set of subsidiary objectives have also been defined:

- To improve consumer experiences and perceptions of changing supplier, leading to increased engagement in the market, by delivering a switching service that:
  - Is more reliable, thereby reducing the instances of consumers being let down by delayed, unsuccessful or unwanted switches
  - 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
  - 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.
- 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.
- 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.

5.32. Based on these overarching objectives, a set of programme Success Factors have been identified. These Success Factors will be used as a foundation to agree the assessment points, develop the detailed readiness frameworks and criteria to enable the programme to measure readiness and evaluate success at key points in the DBT Plan, agreed by the programme Delivery Group, and make an informed go-live decision.

5.33. The Success Factors will remain consistent unless fundamental change occurs in the programme. However, the readiness criteria will be tailored for each assessment point and may apply differently to each type of programme participant. This level of detail, along with expected evidence to support the attainment of each criteria, will be outlined in the detailed readiness frameworks. The readiness frameworks will be developed and agreed with Ofgem for each assessment point. Where appropriate wider consultation will be conducted, for example with the DCC, and/or other parties.

5.34. A similar approach was used in conjunction with the market participants and UK Link systems provider on Project Nexus and were considered extremely helpful in aligning industry expectations and requirements for engagement and readiness.

5.35. The Switching Programme will be successful if it delivers is stated objectives. In order to demonstrate that the Switching Programme can meet these aims, Ofgem has developed overarching Success Factors each underpinned by a set of more detailed secondary success factors. These will be used as the basis for measuring readiness at key points and ultimately support the go-live decision.

Table 2: Switching Success Factors

1.	***Improved consumer value, experience and engagement with the retail market***
1.1.	Market wide SLAs are defined, can be measured with evidence of achievement
1.2.	All market participants and industry system operators are able to effectively play their roles in the new switching arrangements
1.3.	There is positive consumer sentiment evident through: analysis of social media/media observatory, an increase in switching rates in the market and fewer consumer complaints and escalations to the ombudsman/regulator
1.4.	Evidence supports (through MI) the achievement of a timely and accurate switching process
1.5.	Positive (or limited negative) press in relation to the Switching Programme or post go live performance
1.6.	There is evidence that new switching arrangements have provided a platform for effective competition and innovation across the market
2.	***Simplified, transparent and harmonised gas and electricity switching processes***
2.1.	Transition from programme governance to appropriate industry governance is planned and delivered
2.2.	The post go-live operating model is established and proven to be able to support the industry
2.3.	Switching performance across the all aspects of the new arrangements is monitored by high quality MI which is made available to key stakeholders
2.4.	Documentation is in place and available to all Programme Participants including Requirements Traceability
2.5.	Switching arrangements do not have a material adverse impact on current industry processes or services
3.	***Fast, reliable, sustainable and secure switching process***
3.1.	The roles and responsibilities for implementation and operation of the CSS, supporting systems and industry processes are clearly defined
3.2.	Critical industry processes are designed, built and proven through completed participant and pan-industry market testing (including consequential changes)
3.3.	Data is of a sufficient quality, complete and supported by an effective data migration processes
3.4.	The new switching arrangements have demonstrated appropriate processes and controls to maintain data quality across the market
3.5.	Cost effectiveness and benefits delivery is proven through a positive full business case (FBC) which is maintained until go-live
3.6.	The new Switching Arrangements have demonstrated, through testing, that they meet defined non-functional requirements and is able to support current and future estimated industry volumes and switching timelines.
3.7.	An integrated cutover plan is agreed, communicated and proven through dress rehearsals
3.8.	Industry change and release management has been substantially improved across both Gas and Electricity to enable the new switching arrangements to support innovation across the market
3.9.	The innovation roadmap, flexibility and adaptability has been proven by the CSS provider
4.	***Robust and flexible regulation to support new switching arrangements***
4.1.	The REC is sufficiently updated, aligned to the CSS with planned updates that are clear to all Programme Participants with respect to the new switching arrangements
4.2.	The REC framework is able to adequately support ongoing high quality data management in the context of the switching arrangements

4.3. The regulation has sufficient control in order to ensure effective operation of the switching arrangements

4.4. The REC is sufficiently flexible to support and drive innovation across the market with respect to switching arrangements

4.5. The regulation is adaptable, with the right level of control and governance, to effectively manage an anticipated increase in the pace of change across the market

DBT Mobilisation

5.36. The Switching Programme is introducing changes which will impact the way suppliers, shippers and Network Operators interact with the existing switching systems. The DBT Entry milestone was due to be achieved on 2 April 2019. As a result of a delay to the procurement of the CSS, the decision to enter DBT was taken on 14 May 2019. This marks the commencement of the Delivery phase of our programme. All parties will need to work together to deliver the changes required.

5.37. The DBT Entry Self-Assessment is the first self-assessment of programme readiness to move through a milestone. There will be further self-assessments required for programme participants to complete at key stages on the programme plan. These are in the process of being finalised and once agreed we will communicate them to industry, as well as the expectations on programme participants at each assessment point.

5.38. As the Switching Programme prepares to enter we have undertaken a readiness assessment survey. This is to support the Delivery Group and the Switching Programme SRO to make an informed decision to proceed. The questions in the survey were designed to measure programme participant's readiness for DBT Entry against a set criteria outlined in the Switching Programme DBT Readiness Framework.