

**FASTER
SWITCHING IS FAST
APPROACHING:
ARE YOU READY?**



WHEN OFGEM PUBLISHED ITS CONSULTATION ON MOVING TO RELIABLE NEXT DAY SWITCHING BACK IN 2014, IT FACED TWO KEY QUESTIONS: HOW TO IMPROVE CONSUMER ENGAGEMENT WITH THE RETAIL ENERGY MARKET, AND HOW TO INCREASE THE NUMBER OF CUSTOMERS SWITCHING THEIR ENERGY SUPPLIER.

Since then, the world has turned on its head: the pandemic, soaring gas prices, a spiralling energy crisis and an evolving net zero energy policy. But set against this backdrop, customers have increasingly engaged with the market. New innovative suppliers have emerged, and now a number have left the market. Competition has thrived, and until recently, there has been a greater choice of deals for consumers wishing to switch their energy supplier than ever before.

But behind the scenes Ofgem's long-running switching programme has continued its steady progress. Somewhat under the radar, it heralds the most significant package of change to the retail energy market since the introduction of domestic competition back in the late 1990's.

The emerging arrangements are now governed under a new Retail Energy Code (REC). A new Central Switching Service (CSS) is due to go live in the Summer of 2022 and so the end is finally in sight.

But now, as we near the end of 2021, the focus on switching is less about consumer engagement and more about whether energy suppliers are ready to implement the changes the programme will bring. And, by the time it happens, will there be a meaningful choice of suppliers left for consumers to switch to?

THE SWITCHING PROGRAMME

A competitive energy market is dependent on customers being able to reliably switch their energy supplier. Consequently, the objectives and aspirations of the switching programme remain as relevant as ever: to deliver faster and more reliable switching for customers underpinned by a new CSS and a set of consolidated and simplified regulatory arrangements under a single energy code. But with the focus of the industry understandably elsewhere, does faster switching have the focus it needs?

The programme is now in its most critical phase. The Retail Code Consolidation Significant Code Review (RCC SCR) is complete, with governance and operational functions of a number of other energy industry codes now consolidated into a single Retail Energy Code (the 'REC').

Ofgem's Switching Significant Code Review (Switching SCR) to deliver the requirements for reliable next day switching is also nearing completion. The new CSS is currently being tested by industry parties prior to its expected go-live in the Summer of 2022.

Consequently, suppliers, network operators and other industry parties are busy undertaking their own development to ensure that their internal systems are ready and able to interface with the new switching arrangements once they go live.

In the meantime, energy suppliers are continuing to undertake the data cleansing activities required to meet Programme milestones. All of this under Ofgem's watchful eye.

But there is a sting in the tail. The big difference between faster switching and other past large scale industry change programmes is the performance monitoring element. Its intent is to ensure that consumers have a positive experience when engaging with the retail energy market.

The latest version of the REC (v2.0) went live in September 2021. This included new obligations for performance assurance – each party to the REC will potentially be subject to defined performance standards to monitor compliance with the code, including sanctions for poor performance. In addition to performance monitoring, there are also new requirements on suppliers, network operators and gas meter asset managers for provision of performance data.

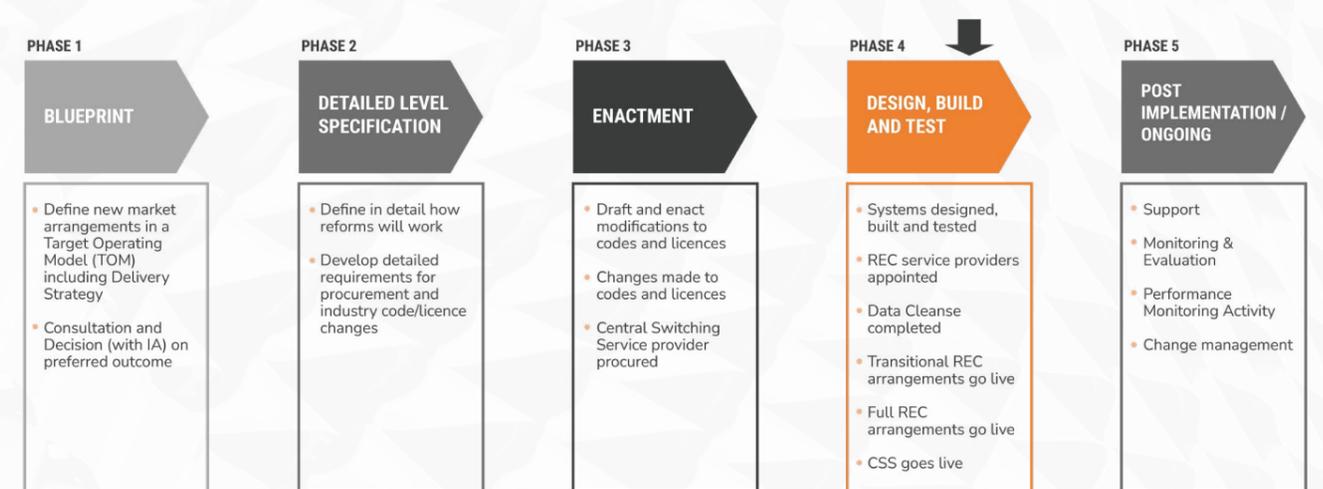


FIGURE 1: Switching Programme: Phases & Progress to date

THE IMPORTANCE OF SWITCHING

So, is faster switching still relevant? Particularly at a time where, given the volatility of gas prices, many energy suppliers have opted to temporarily stop taking on new customers?

Well, put simply, yes. If some of the more negative estimates of the number of active suppliers remaining at year end are to be believed, a competitive energy market becomes even more important. With suppliers going out of business, large numbers of customers being transferred under the Supplier of Last Resort (SoLR) arrangements, and with price rises looming (including the recent increase to Ofgem's energy price cap), customers could be forgiven for wanting to remain with their current supplier.

We live in a world of almost instant gratification. Takeaways appear at the door within minutes. Amazon deliveries appear next day. Yet the average time for customers switching their energy supplier can still be measured in weeks. Removing this hassle factor for customers is even more important – and besides, whilst the number of deals available right now may be relatively low, this is unlikely to remain the case for long.

The factors that drive customers to seek an alternative energy supplier are also likely to change as customers re-evaluate what is important to them. Perhaps customers may place more value on stability, service, or insight into ways to reduce their bills rather than purely price. But whatever the drivers for switching, those suppliers which innovate whilst retaining excellent service will likely remain ahead of the pack. That means embracing the new switching arrangements and being on top of both the corresponding system and regulatory changes. It is these suppliers that will be in an advantageous position once memories of the current energy crisis have faded.

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IS YOUR COMPANY READY?

Some of our clients tell us that the switching programme is highly complex. With different workstreams driving myriad different meetings, knowing where to focus effort is one of the biggest challenges for industry participants.

Implementing change within any organisation is never easy. Faster switching involves changes to processes, systems and even culture as new ways of working are introduced. Planning and preparation are key, and an assessment of business readiness is essential for success. Unfortunately, it is this step that is often overlooked.

As a key participant in the switching programme and from our experience of managing the associated changes - our message is simple - 'get ready!' Evaluate your own readiness for faster switching and seek to understand what is changing and when.

Figure 2 below, sets out a high-level timeline for what we consider to be some of the key elements.

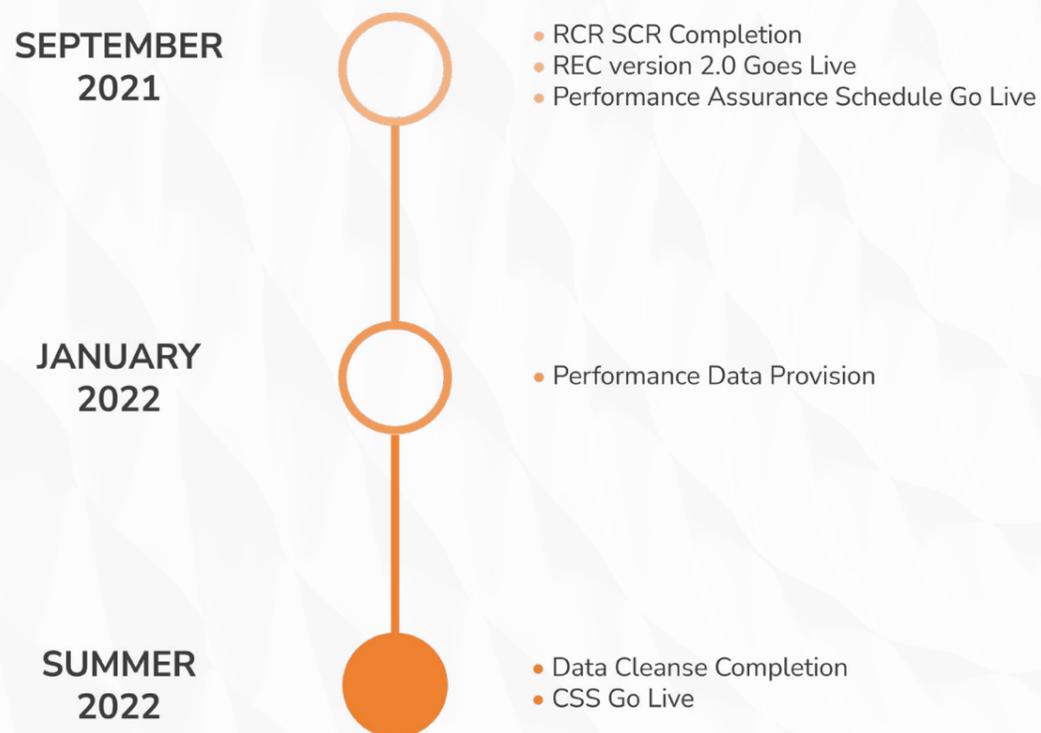


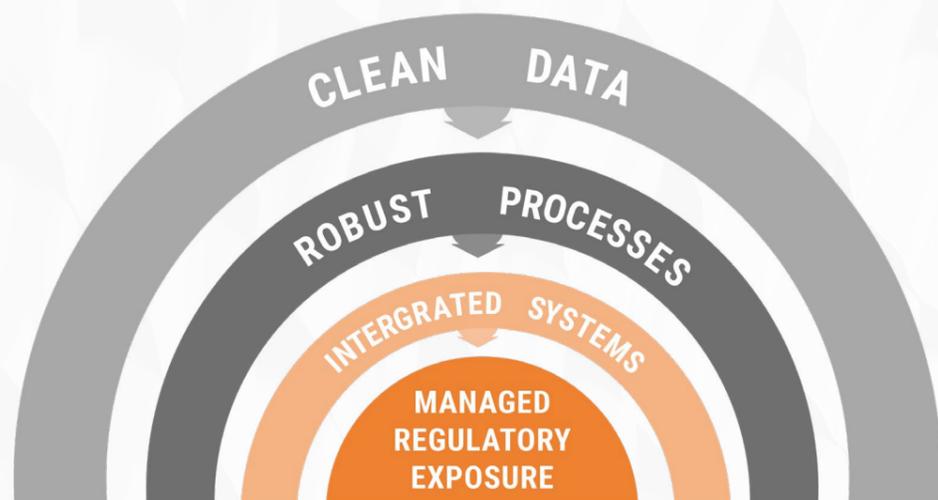
FIGURE 2: Switching Programme: A high-level timeline

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WHAT CAN YOU DO ABOUT IT?

Once an organisation understands what is changing and when, it can then start to focus its attention on what it needs to do differently. Naturally this will vary from company to company. We recognise that different organisations have different cultures and challenges as well as different systems, processes, and levels of understanding. There is no such thing as a 'one size fits all'.

But based on our experience of helping clients with their business readiness and our long involvement within the switching programme, there are four main areas of focus that we find to be common across industry participants. In turn, these can be used to begin to create a simple checklist to assess readiness for faster switching:



1: CLEAN DATA

- Do you understand the data cleanse requirements that are in place within the Programme? Are you confident that you will be able to reach the defined data cleanse milestones? Is your data as clean and accurate as it could be?

3: INTEGRATED SYSTEMS

- Are your systems able to interact with the new CSS? Have you/are you participating in industry testing? If you use a 3rd party service provider, are they ready for the changes? How will you manage the cutover period between the old systems and the new CSS?

2: ROBUST PROCESSES

- Do your business processes work? Are they clearly defined and documented with business owners in place? Have they been tested and audited? Are they compliant with regulatory requirements?

4: REGULATORY EXPOSURE IS UNDERSTOOD AND MANAGED

- Are you aware of the obligations detailed within the latest version of the REC? Are you able to demonstrate compliance? Are you aware of the new performance assurance requirements? Are you satisfied that your organisations performance levels are in line with the levels expected? Are you aware of and managing the new data provision requirements for performance assurance?

FIGURE 3: Switching Programme: Four main areas of focus

IN SUMMARY

It is critical to the functioning of the retail energy market that customers continue to be encouraged to switch. Switching (in a well-functioning market) is the essence of competition. It leads to more competitive prices, higher quality services, greater variety, and increased innovation. The introduction of faster switching in the retail energy market has traditionally been understood in these terms.

Just at this crucial time to prepare for the new retail future, energy suppliers and other industry parties are understandably very distracted. But alongside the need to survive in the current market, our industry must be ready to implement change comparable with the introduction of retail competition in the first place. Are you ready for the change?

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