

**November 2000**

**Improving Customer Transfers  
A Consultation Document**

## Summary

Domestic customers in Great Britain have for some time been able to choose who will supply them with their gas and electricity. Many have taken that opportunity and enjoyed cheaper prices and better service as a result. The processes that facilitate the transfer of customers between electricity and gas suppliers have generally worked reliably and 17 million customer transfers have been completed.

However, a significant number of customers have experienced problems with their transfer between suppliers. Transfer related problems accounted for over a third of all complaints received by Ofgem and the Gas Consumers Council between January and October 2000. The current processes are complex and expensive for the industry to operate. Problems occur as a result of shortcomings in the design of the processes and poor performance by a few market participants.

Customers are experiencing dramatic changes in many retail markets, which are bringing new technologies and new ways of interacting with suppliers. In many respects, the customer transfer processes in both gas and electricity do not match the requirements of modern, competitive retail markets. It is possible that, by their very nature, the processes have anti-competitive effects, discouraging customers from making choices between competitors and acting as a barrier to entry.

In April 2000, Ofgem initiated the Improving Customer Transfers (ICT) project to assess the opportunities for substantial improvements, to explore the approaches that could lead to improvements and to establish whether the current arrangements are preventing improvements from being achieved. The project has already drawn on substantial contributions from many industry participants.

In this document, Ofgem provides its assessment of the current processes and sets out principles that we believe should be met by improved arrangements. Three main approaches for achieving fundamental reform are offered for discussion and we invite comment on Ofgem's role in achieving such reform. Ofgem identifies the current and new initiatives that it believes should be supported whichever approach to fundamental reform is adopted and sets out the next steps.

## *Principles*

Ofgem is proposing the following set of principles against which to assess whether the customer transfer processes are operating efficiently and effectively:

<b>Control</b>	A new supplier should have control over managing the transfer process.
<b>Timing</b>	A new supplier should be able to take over responsibility for supplying a site with the minimum of notice, potentially immediately.
<b>Development</b>	Suppliers should be able to adopt new processes at their own pace. Industry wide changes should be kept to a minimum.  Suppliers should, as far as is practical, be allowed to develop their systems and processes without being constrained by other industry parties, except where required to achieve interoperability.
<b>Customers</b>	The transfer process should be invisible to customers.
<b>New entrants</b>	The transfer process should be as simple and accessible as possible to enable new entrants to the market to operate.
<b>Regulation</b>	The transfer process should require a minimum level of regulation.

Such a framework of principles would allow the industry better to assess the various options for fundamental improvements. Ofgem invites feedback on whether this set of principles is correct and complete.

## *Achieving fundamental improvements*

Three different approaches to achieve fundamental improvements have been explored.

- ◆ Almost all improvements made to the customer transfer processes since their inception have been through incremental **refinements** or adoption of supplementary working practices and there is scope to continue with this approach. However the current industry governance procedures mean that even small refinements require the commitment of all relevant industry participants to collective simultaneous change. Experience has shown that achieving consensus for change is often time consuming and difficult.

- ◆ The industry could **re-engineer** the customer transfer processes, building on the experience and lessons learnt to date. There is unlikely to be much appetite for another programme of major collective change and it is not clear which organisations should take on the lead role, especially as the exercise would ideally cover both gas and electricity sectors to achieve alignment where appropriate.
- ◆ There appear to be real opportunities for the industry to adopt a more **evolutionary** approach to change. The current infrastructure provides little flexibility for suppliers unilaterally to improve their operations for handling the take-on of their customers, a key area in which suppliers may wish to be able to control and differentiate their propositions. The development of enhanced facilities, sitting alongside the current interfaces, would give incoming suppliers more control over the timing and impact of the changes they make to their own operations.

However, such an evolutionary regime presents a number of challenges for the current governance arrangements, which are largely based around the use of common processes and interfaces, requiring simultaneous change by all relevant participants.

The approach taken would determine the manner in which changes were considered and implemented by the industry. Ofgem's preliminary view is that individual industry participants should be allowed to develop their processes and operations at their own pace in response to commercial and competitive forces and that collective change should be kept to a minimum. This suggests that there are distinct advantages with the evolutionary approach.

### ***Ofgem's role***

A number of approaches could be taken by Ofgem to instigate, facilitate or support change within the industry. Whilst it is appropriate that Ofgem initiates the debate, Ofgem is not seeking to take the lead in specifying the design solutions, or the programme of implementation. However, we recognise that Ofgem may need to respond to requests from industry participants to facilitate or instigate changes. In particular, Ofgem will need to consider whether the licence conditions and price

control arrangements sufficiently encourage the transportation and distribution companies to play an active role in improving the customer transfer process. Ofgem may also need to respond to participants who challenge whether certain activities need to be performed according to mandatory processes set out in industry codes and agreements.

We welcome suggestions on how Ofgem could best support the industry in its assessment of the need for further change and alternative models that could be implemented.

### ***Moving forward***

Work is already being undertaken by the industry to refine and develop building blocks that are likely to underpin whichever approach is taken to improve the customer transfer arrangements. The industry should not slacken its efforts on these initiatives and Ofgem intends to continue to provide its support to developments that:

- ◆ Improve the address data held for metering points. The objective is to achieve and maintain a unique, accurate and current address for each metering point, to a national standard. A draft Standardised Address Format has been developed and is available on the Ofgem web site.
- ◆ Establish better processes for handling change of supplier meter readings and subsequent disputes.
- ◆ Establish better processes for managing the return of customers that have been erroneously transferred.
- ◆ Develop processes and facilities to support competition in gas metering services that are robust and do not impair the ability for a customer to change supplier.

Ofgem also intends to continue with its work to review the Network Code governance arrangements, to determine whether the current regime is operating in an equitable and efficient manner and consider reforms if it is not. This review also aims to ensure greater consistency within the gas industry – between IPGTs and between IPGTs and Transco – and between the gas and electricity industries.

The clear definition of industry data standards is essential for effective interoperability. Ofgem proposes to initiate a joint data standards work stream to bring together and progress the considerable work that has already been undertaken in this area.

Substantial benefits could be achieved if incoming suppliers had earlier access to information about sites and customers that they intend to transfer. This would require the development of mechanisms to provide access to the relevant data and establish the clear, legal framework that would support access to a limited set of data, by authorised participants, for prescribed purposes. Ofgem proposes that the industry should consider how such a legal framework could best be implemented, through changes to industry agreements or changes to licences.

This consultation document reports on the findings of the ICT project to date and seeks to generate and offer proposals for further debate. Ofgem will be arranging a workshop in January 2001, jointly with energywatch, to take forward discussion of the issues raised. Responses to the consultation would be appreciated by 9<sup>th</sup> February 2001 and Ofgem intends to publish a summary of the feedback it receives. Ofgem also expects to issue a progress report covering the discussions and decisions that have been made in the 6 months following publication of the consultation document.

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# 1. Introduction

## *Improving customer transfers*

- 1.1 This document sets out the findings of Ofgem's review of the processes and arrangements that facilitate the transfer of responsibility for supplying gas and electricity customers. Ofgem initiated its Improving Customer Transfers (ICT) project to assess the opportunities for substantial improvements in this area, to explore the approaches that could lead to improvements and to establish whether the current arrangements are preventing improvements from being achieved. The project has focussed on the arrangements for handling domestic customers<sup>1</sup>, but many aspects could also apply to the industrial and commercial sector as well.
- 1.2 In this document, Ofgem provides its assessment of the current processes and sets out principles that we believe should be met by improved arrangements. Three main approaches for achieving fundamental reform are offered for discussion and we invite comment on Ofgem's role in achieving such reform. Ofgem identifies the current and new initiatives that it believes should be supported whichever approach to fundamental reform is adopted and sets out the next steps.

## *Background*

- 1.3 Under the Utilities Act 2000 the Gas and Electricity Markets Authority has a principal duty to protect the interests of consumers in relation to gas conveyed through pipes and electricity conveyed by distribution systems, wherever appropriate by promoting effective competition. Ofgem also has concurrent powers with the Office of Fair Trading under the Competition Act 1998.
- 1.4 Between April 1996 and May 1998 competition was introduced into the domestic gas market. The sub-100kW electricity market was gradually opened to competition in the eight months to May 1999. The development of

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<sup>1</sup> The draft licences for both gas and electricity, issued for consultation on 25 October 2000, employ a single definition of domestic customers as "customers occupying premises used wholly or mainly for domestic purposes". This will replace the current definitions that rely on levels of consumption and which therefore include small business customers.

competition required significant changes to be made to industry systems and processes to facilitate the transfer of customers between competing suppliers.

- 1.5 Following the introduction of competition into the gas and electricity markets there has been a period of bedding down and a number of refinements have been made to systems and processes. However a number of problems remain.
- 1.6 In general the transfer processes have worked well and to date, in gross terms, over 17 million customers have switched between suppliers. Although the overwhelming majority of customers have switched without difficulty, a significant number have had some problems and it is clear that the existing systems and processes impose costs and inefficiencies on industry participants.
- 1.7 Ofgem is aware that there are shortcomings in the current arrangements, but also recognises that the introduction of competition presented particular challenges and that a period of bedding down of new systems and process was required before a proper assessment could be made. The experience and lessons learnt over the previous four years led Ofgem to believe that it was appropriate to set out the requirements to review the customer transfer process as one of the priorities in its published plan for April 2000 – March 2001.
- 1.8 In its report "Giving Customers a Choice – the introduction of competition into the domestic gas market (May 1999)" the National Audit Office (NAO) recommended that Ofgem should "review the process by which customers are transferred to a new supplier to establish if this could be done more quickly". The NAO was concerned that it was taking too long for customers to change gas supplier, especially when there were problems or the incumbent supplier blocked the transfer. The NAO is currently undertaking a similar study of the introduction of competition into the below 100 kW electricity market. The newly formed joint energy consumer council, energywatch, has also recently identified the need to identify improvements to the customer transfer process as one of its top priorities for the next year.
- 1.9 Ofgem has consulted with a wide range of organisations in order to understand how improving the customer transfer process might best be approached. Ofgem has met with the representatives of the gas and electricity industry on several occasions, including at an Industry Forum event held on 20 July 2000. Ofgem

has met industry participants and other interested parties on a one-to-one basis to understand their views.

- 1.10 Ofgem's thinking in this area has also been informed by the many responses to two questionnaires that we circulated to industry participants and customer representatives respectively during May and June 2000.

### ***Rationale***

- 1.11 There is considerable evidence that the current market infrastructures are a major factor influencing the performance of competitors and the development of competition in the gas and electricity markets. The industry has estimated that around 35% of all attempted transfers result in exceptions that require some kind of manual intervention to what should be a largely automated set of functions.
- 1.12 The poor performance of the transfer process and the length of time it takes to transfer between suppliers can affect customers' perception of competition. If competition is brought into disrepute fewer customers will decide to switch either for the first time or subsequently.
- 1.13 Complex, costly and problematic systems are used to effect customer transfers. These are likely to act as a barrier to new entrants and therefore dampen down competition and innovation in the market.
- 1.14 Improving the infrastructure will allow individual industry participants to obtain efficiencies and cost savings that are not currently achievable. Improvements will allow suppliers to exploit new routes to market and product innovations.
- 1.15 There is a need to allow incoming suppliers to have more control over their own performance and greater ability to resolve problems. The transfer process should also enable suppliers to differentiate their products and services and obtain competitive advantage.
- 1.16 It is potentially difficult for individual companies to achieve a fundamental transformation of the industry transfer process infrastructure. The current governance arrangements require some degree of simultaneous, collective change, which may be difficult to achieve where competitors are operating to different agendas and are at different stages of development.

- 1.17 When problems that affect customers have arisen from shortcomings in the transfer process design, Ofgem has stimulated and facilitated discussions on changes to the customer transfer process.
- 1.18 Ofgem considers that there are a number of benefits that could be accrued by customers from an improved transfer process, which they are not currently able to enjoy. For example:
- ◆ Fewer customers should experience difficulties – such as erroneous transfers or delays in billing – and any such problems should be resolved more quickly.
  - ◆ Reducing customer transfer timescales. From customer signature to customer transfer takes on average 6-8 weeks. Reducing this could release an additional saving of up to £15 for the average customer. This represents around £35 million annual savings at current switching rates.
  - ◆ More customers will enjoy the benefits of competition if they are not dissuaded from transferring by reported problems and bad publicity, increasing choice and savings for individual customers.
  - ◆ Fewer problems and a shorter time required to transfer will make customers more prepared to switch subsequently, maintaining churn in the market and the incentive on suppliers to develop innovative offerings to customers.
  - ◆ Reduced operational costs for participants could feed through into lower tariffs, extending the scope for price competition between suppliers.
  - ◆ Home movers could be supplied by their chosen companies from the date they move rather than several weeks after occupying a property.
  - ◆ Customers and suppliers will be able to take advantage of new and diverse channels to market and product innovations.
- 1.19 An improved customer transfer process with less scope for problems will require less regulatory intervention.

- 1.20 The review should help to facilitate competition in metering by incorporating its requirements into the improved change of supplier process. In addition, the ICT project complements the current Ofgem review of Network Code Governance.
- 1.21 There are a number of activities and changes occurring within the industry that should lead to the development of a more competitive market. These include:
- ◆ The reform of wholesale trading arrangements for gas and electricity.
  - ◆ The separation of electricity supply and distribution.
  - ◆ Separation of Transco's metering services from its PGT business.
  - ◆ Publication of clear prices.
  - ◆ Publication of complaint data.
- 1.22 It is recognised that many of the proposals contained in this document could have application in the industrial and commercial market for gas and electricity and may bring significant benefits to those customers. However this document concentrates on the domestic market and the implications of managing high volumes of transactions at relatively low unit cost.

### ***Structure of the document***

- 1.23 Chapter 2 assesses the experience of customers and industry participants in operating the current domestic energy transfer processes. Chapter 3 reviews customers' expectations for an effective transfer process and considers some of the recent technological developments that have informed these expectations.
- 1.24 Chapter 4 highlights the principles that Ofgem believe should underpin an effective customer transfer process. Chapter 5 reviews some of the potential changes that could be made to improve the customer transfer process, drawing on contributions from many industry participants. It outlines three basic approaches that the industries could take to achieve improvements, identifies a number of refinements that could be made and presents several alternative models. In chapter 6 we discuss some of the factors that will need to be considered in instigating and making changes to achieve the benefits. Chapter 7

sets out conclusions and presents proposals for moving forward towards improvements.

1.25 Appendices include:

- ◆ A summary of the responses to two questionnaires that Ofgem circulated in May and June 2000.
- ◆ Process maps for some of the current processes associated with the transfer of customers.

### ***Timetable***

1.26 This document represents an initial consultation on improving the gas and electricity customer transfer processes and seeks to generate and offer proposals for further debate. Ofgem will be arranging a workshop in January 2001, jointly with energywatch, to take forward discussion of the issues raised. Responses to the consultation would be appreciated by 9<sup>th</sup> February 2001 and Ofgem intends to publish a summary of the feedback it receives. Ofgem also expects to issue a progress report covering the discussions and decisions that have been made in the 6 months following publication of the consultation document.

1.27 It is Ofgem's view that the industry should continue to respond to problems identified with the customer transfer process by implementing relevant changes. Indeed many of the areas highlighted in this document are already being considered. However, the industry may wish to take into account the issues raised in this document when considering further changes.

### ***Ofgem Contacts***

1.28 Responses should be addressed to:

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### ***Confidentiality***

- 1.29 It is open to respondents to mark all or part of their responses as confidential. However, we would prefer as far as possible that responses were provided in a form that can be placed in Ofgem's library. Where only part of the response is confidential then this should, where possible, be consigned to appendices.
- 1.30 If you have any queries concerning this document, then Andrew Wallace (tel: 020 7901 7067 or email: [andrew.wallace@ofgem.gov.uk](mailto:andrew.wallace@ofgem.gov.uk)) will be pleased to help.

## 2. Assessment of Current Market Arrangements

- 2.1 This chapter sets out a brief history of the domestic gas and electricity market, and outlines the gas and electricity customer transfer processes. It then assesses the experiences of customers, suppliers, Public Gas Transporters (PGTs), electricity distribution companies and other market participants currently operating within this framework.

### *History of the market*

- 2.2 Competition in the domestic gas market was rolled out in three main phases beginning in April 1996 and ending in May 1998. Controlled start-up of competition in the below 100kW electricity market began in September 1998, and all of Great Britain was open to competition by the end of May 1999.
- 2.3 In preparation for competition, licence conditions and contractual agreements were developed to define the activities and obligations of the various industry participants covering a wide range of transactions including the transfer of responsibility for sites supplied with gas or electricity. The arrangements were negotiated between many relevant industry parties – including the DTI, Ofgas and OFFER – and are intended to provide clarity of responsibilities and facilitate competition.
- 2.4 The basic design of these processes was established before markets were opened to competition and therefore drew on operational knowledge and experience from the already competitive Industrial and Commercial (I&C) gas and electricity markets.
- 2.5 The domestic markets for energy therefore reflect many of the constructs of the I&C market, including complex contracts, termination notice clauses, and in the case of gas, lead times before transfer to allow capacity and commodity to be procured and balancing data to be amended. Arguably they do not embody many of the customer friendly features that are seen in an effective retail market such as clear prices, instant access and little hassle in moving to a different supplier.

- 2.6 The current transfer processes have generally worked reliably and have facilitated the roll-out of competition in the domestic gas and electricity markets. By the end of October 2000, there had been nearly 9 million domestic gas transfers, many customers having changed more than once. Currently over 5.7 million customers are not being supplied by BGT, the previous monopoly gas supplier. This represents 28.8% of the market being supplied by one of the 26 new entrants. Up to the end of October there had been nearly 9 million transfers of designated (domestic and small business) electricity customers, and nearly 5.9 million customers (about 21% of the market) are not being supplied by their original host PES, the previous monopoly supplier.
- 2.7 Mori research commissioned by Ofgem and published in the January 2000 report "Electricity and Gas Competition Review" revealed that over 88% of electricity customers who switched found it fairly or very easy to switch supplier. 86% of gas customers who switched found it fairly or very easy to switch supplier.
- 2.8 However, some customers do experience problems. One of the most visible indicators of these are customer complaints to MPs, Ofgem and the energywatch, which represent cases that suppliers have not dealt with effectively themselves. From January to October 2000, Ofgem and the GCC received 13,000 gas and 11,500 electricity transfer related complaints. This represents over a third of all complaints received by jointly. The fact that suppliers were not able to resolve these cases to the satisfaction of customers reflects the complex nature of the transfer processes, as well as the lack of experience of some suppliers in taking-on (or losing) customers in such volumes.
- 2.9 Market participants have also expressed concern regarding the current industry structure, the performance of other parties, as well as the difficulties in entering the market and performing well in this complex environment.
- 2.10 Several areas of weakness have been identified with the operation of the customer transfer process. The poor performance of market participants can broadly be broken down into problems experienced by individual companies, and general problems affecting the wider community. Ofgem has monitored

and reported on performance, intervened with particular companies that have experienced problems and where necessary has taken formal regulatory action.

- 2.11 Although the gas and electricity customer transfer processes have been refined over time, in response both to areas of concern and to market developments, such amendments to the transfer processes have been made in a somewhat piecemeal fashion. So far there have been few attempts by the industry to review and amend the fundamental causes of customer complaints and process exceptions.
- 2.12 The main rules governing the transfer processes are set out in Network Codes in the gas market and in the single Master Registration Agreement (MRA) in the electricity market. Following the introduction of competition in these markets it became clear that these rules needed to be supplemented. In the gas market suppliers have established a Code of Practice that covers processes requiring co-operation between suppliers, such as amendments to change of supplier (CoS) meter reads, notification of erroneous transfers and claims for the reallocation of misdirected pre-payment meter payments. In the electricity market the MRA has been supplemented by working practices in similar areas. In both industries these supplementary processes are not mandatory or strictly enforceable and often not supported by the main infrastructure.
- 2.13 Ofgas initiated the Biscuit project in 1998 to encourage gas suppliers to improve the mechanism for inter-supplier communications, replacing faxes with emails and defining the data to be exchanged. The introduction of these standards has allowed suppliers increasingly to automate their procedures for handling the supplementary processes.
- 2.14 In April 2000 agent competition was introduced into the electricity market, which allows suppliers to choose who provides them with metering services. Previously the functions of the meter operator (MOP), data collector (DC) and data aggregator (DA) had to be provided for the supplier by the host PES in a customer's area. Following the introduction of agent competition, suppliers are now able to contract with any accredited metering service provider. Introducing competition into previous monopoly areas, such as metering services, seeks to

reduce prices, improve service and provide incentives for metering providers to innovate and differentiate their services.

- 2.15 Suppliers have been able to choose who reads gas meters since October 1997, although many have continued to procure this service from Transco. Transco currently undertakes almost all work concerned with provision and maintenance of domestic gas meters, but suppliers will soon have more choice in the provision of these services as well. The associated separation of Transco's metering activities from its transportation business will require changes to systems and interfaces used by Transco, suppliers, shippers and agents in areas that are intrinsically linked with the transfer of customers between suppliers.
- 2.16 To date, suppliers have largely differentiated themselves through price rather than service quality. In the gas market customers can typically save up to £60 per year compared with BGT, and in the electricity market customers can save around £30 a year compared to the host PES supplier. Following the opening of the below 100kw electricity market, most suppliers offer both gas and electricity products, often with an additional discount if a customer takes both. By switching both fuels to the same supplier, customers can typically save up to £100 per year. However, the differences between the gas and electricity transfer processes often mean that the customer's transfer experience differs for both fuels, for reasons that are not obvious to the average customer.
- 2.17 The next two sections outline the industry processes that handle the transfer of responsibility for the supply of gas and electricity to a site and a high level view of the overall process is shown in Figure 2.1. The customer is likely to have entered into a contract with their chosen supplier some two or three weeks before that supplier initiates these transfer processes. Distance selling regulations, supplier licence conditions covering marketing activities and trade association standards place obligations on suppliers to ensure that customers are aware that they have entered into a contract and allow customers to change their mind. The difficulties associated with stopping or reversing out of a transfer lead most suppliers to delay initiating it until after they have completed the steps that they need to undertake to satisfy these obligations, rather than undertake the processes in parallel.

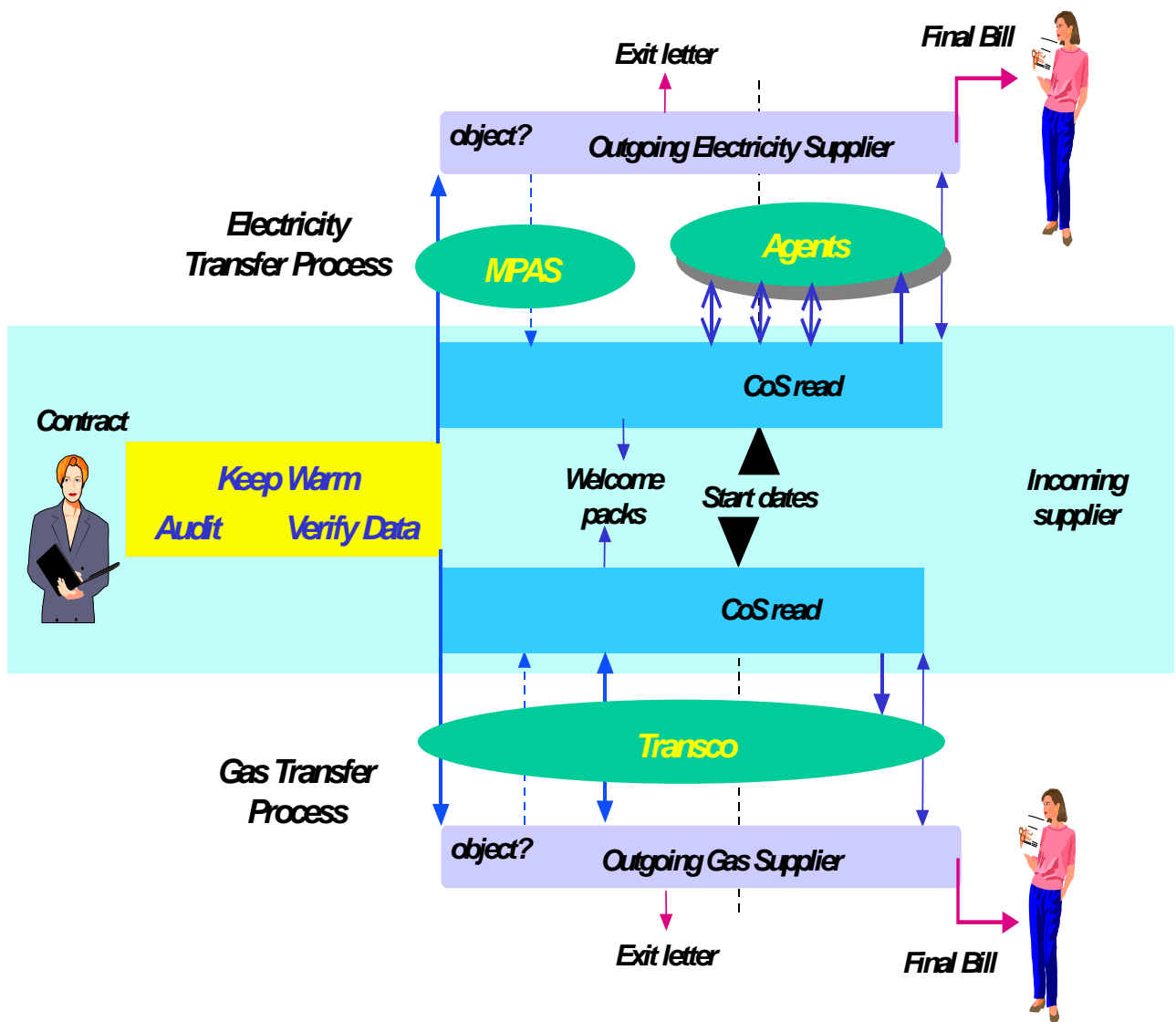


Figure 2.1 : Taking on a customer

*The domestic gas customer transfer process*

2.18 The rules governing the customer transfer process are set out in the sections of a PGT's Network Code that deal with the Supply Point Administration (SPA) services that they are required to provide in order to facilitate competition in supply. The Network Code forms a contract between the PGT that operates the transportation network and shippers responsible for sites on that network. Transco has approximately 20 million sites connected to its network, compared to 188,000 (as at October 2000) on other PGT networks, so its Network Code

provides the rules for the vast majority of customer transfers. Pressure from suppliers has led Transco to licence its SPA interface formats to the IPGTs, so that more consistent interfaces can be achieved, although the IPGTs have still to implement such interfaces electronically.

- 2.19 Transco's Network Code and its UK Link systems were always intended to support the domestic market, but were primarily developed based on experience gained in the Industrial and Commercial markets which had already been open for competition for several years.
- 2.20 Whilst we refer to the gas supplier when discussing SPA transactions throughout this document, suppliers are not signatories of the Network Codes. Therefore, most SPA transactions require the supplier's shipper to act on its behalf in dealing with Transco. We have used wording that more clearly indicates which organisation is initiating or responding to transactions (the supplier), rather than mainly acting as an intermediary (the shipper).
- 2.21 There are a number of key principles behind the arrangements to handle customer transfers, including the following:
- ◆ Each metering point connected to a PGT's network has a unique Metering Point Reference Number (MPRN) that is used as the identifier in transactions to ensure that market participants are referring to the same site. Transco's Sites & Meters (SAM) database also holds details of how metering points are aggregated into supply points, although the vast majority of domestic supply points comprise only one meter. Transco generates and is the definitive authority on the MPRN that applies to a metering point.
  - ◆ One supplier is responsible for each metering point that is taking a supply of gas, both in terms of the licence obligations and responsibility for transactions and payments. The responsibility can transfer between suppliers, with the incoming supplier taking over responsibility on a defined date. Transco holds the definitive record of the responsible supplier for each site on its network.

- ◆ The outgoing supplier should use the same meter reading to close its account with the customer as that used by the incoming supplier to open its account. This prevents double billing or non-recovery of charges from customers for gas used.
- ◆ The incoming supplier receives the information that it requires to service the customer. This includes data on the meter installed, its ownership, estimated consumption and the status of the supply. Currently all this data is held centrally and provided by Transco to the incoming supplier.

2.22 Under Transco's Network Code arrangements an incoming supplier is required to give notice of its intention to take over responsibility for a site on a specified date. This is known as a "confirmation" message. The supplier can make this confirmation up to thirty working days in advance of the specified transfer day and has to give at least fifteen working days notice.

2.23 Whilst the vast majority of confirmations are accepted, there are over 30 reasons why Transco could reject a confirmation. The most common reasons for rejections are that the confirmation notice period is too short or too long; the postcode for a MPRN does not match what is on Transco's database; the MPRN does not exist on Transco's database; or another confirmation is currently being processed.

2.24 If the confirmation is accepted, Transco will notify the incumbent supplier that the confirmation has been submitted for the specified transfer date. The outgoing supplier has seven working days in which to take action to prevent the transfer, which it can do by registering an objection. Objections can only be raised if the customer has an outstanding debt, or has not provided sufficient termination notice. Objections can be withdrawn if the underlying reason is resolved. In practice most objections are not withdrawn and block the transfer of the customer.

2.25 If an objection does not block the transfer then, about seven working days before the transfer, Transco notifies both outgoing and incoming supplier that responsibility for the site will transfer and provides the incoming supplier with the data it holds on the site.

- 2.26 Under the Network Code the new supplier is required to provide a CoS meter reading for the transfer. Readings should be taken in a five working day window around the date of transfer and submitted to Transco, which will validate the reading and, if acceptable send it back to the incoming supplier and to the outgoing supplier. If Transco has not received an acceptable reading by the 10<sup>th</sup> working day after the transfer, its systems will provide an estimated meter reading, which will be transmitted to both the incoming and outgoing suppliers.
- 2.27 The meter reading or estimate is used by the outgoing supplier to generate a final bill for the customer and by the new supplier to start the customer's account on its billing system. If either supplier or the customer do not agree with the meter reading or the estimate then both suppliers are required to negotiate and agree an alternative "agreed read" that they will both use. The agreed read should also be submitted to Transco, but it is often not possible for the reading to be loaded onto SAM.
- 2.28 The original transfer arrangements were built on the assumption that the estimates generated would be acceptable in all circumstances that actual reads were not used. During the initial phase of roll-out in 1996, it became apparent that it was often necessary to agree alternative readings, frequently at the request of the customer, so suppliers developed processes for them to communicate with each other. Initially, communications with each other were by fax or phone, but the volume of cases led to the development of electronic data exchange through the Biscuit project, built on emails over the Internet, that is now used for the majority of such communications.

### ***The electricity customer transfer process***

- 2.29 The rules governing the transfer process for electricity customers are contained within the MRA. This is an industry agreement, to which all licensed suppliers and distributors are required by their licences to become a signatory, which defines the responsibilities and obligations of each party. Each of the 14 electricity distribution companies are required to operate a Metering Point Administration Service (MPAS) in order to facilitate competition in electricity supply. The rules for the transfer process defined in the MRA were established

through negotiations between the industry, the regulator and customer representative groups.

2.30 The basic principles behind the arrangements to handle customer transfers are very similar to those that apply in the gas sector, and include the following:

- ◆ Each metering point connected to one of the 14 electricity distribution networks has a unique Metering Point Administration Number (MPAN) that is used as the identifier in transactions to ensure that market participants are referring to the same site. Each MPAS generates and is the definitive authority on the core MPAN that applies to a metering point. However, details of how electricity metering points are aggregated into sites is not recorded centrally, although MPANs that are part of aggregated configurations can be identified from information in the full MPAN.
- ◆ One supplier is responsible for each metering point that is taking a supply of electricity, both in terms of the licence obligations and responsibility for transactions and payments. The responsibility can transfer between suppliers, with the incoming supplier taking over responsibility on a defined date. Each MPAS holds the definitive record of the responsible supplier for each site on its particular network.
- ◆ The outgoing supplier should use the same meter reading to close its account with the customer as that used by the incoming supplier to open its account.
- ◆ The incoming supplier receives the information that it requires to service the customer. This includes data on the meter installed, its ownership, meter reading schedule, estimated consumption and the status of the supply. However, much of this data is received directly by the new agents appointed by the incoming supplier from the agents of the outgoing supplier. The new agents forward the relevant data to the incoming supplier.

2.31 The process for transferring electricity customers appears broadly similar to the gas transfer process, but there are a number of differences that have significant

implications. Each MPAS records the changes in responsibility for supply to metering points, keeping details of the incumbent supplier and the agents – MOP, DC and DA – that have been appointed to that site by the incumbent supplier.

- 2.32 An incoming supplier registers its intention to take over responsibility for a metering point with the relevant MPAS on a specified supply start date (SSD). If the registration is accepted, it receives from the MPAS details of the agents currently appointed. The MPAS also notifies the incumbent supplier that the registration has been submitted for the specified SSD.
- 2.33 It is theoretically possible for a supplier to register a transfer with an SSD only one day ahead. However, the majority of electricity suppliers have registered transfers giving the maximum 28 calendar days notice, broadly similar to the practice in the gas market. This reflects the complexity and lead times of the transactions that the supplier needs to undertake in order to obtain the data that is required for it to be able to service its new customer.
- 2.34 As in the gas process and for essentially the same reasons, the incumbent supplier can, within five days of being notified of the potential loss of a site, block the transfer by raising an objection. In addition, an electricity supplier can request that the incumbent supplier raises an objection where they have made an error in registering the site. Following an objection there is a further five-day window in which the incumbent supplier has the opportunity to withdraw the objection. If the objection is not withdrawn then the site will not transfer.
- 2.35 The incoming supplier has to appoint MOP, DC and DA agents for the site and obtain data that will allow it to service its customer. Much of that data needs to be obtained from the incumbent agents and submitted to the new agents. The Data Transfer Catalogue (DTC), which is part of the MRA, defines the data flows and processes to be used, which involve sequential appointment of agents, acceptance messages, requests for data from the incumbent agents, provision of data and notification of the identity of other agents. These processes are described in Appendix 2.

- 2.36 To date, the vast majority of incoming suppliers have continued to use the incumbent agents, which derived from the original PESs. It is still necessary for the supplier to formally appoint agents even where they are the same body, and obtain data from the MOP that it needs to include in data flows that it submits to the DC.
- 2.37 The incoming supplier can obtain a meter reading from the customer or by using a meter reader, which should be taken in the 11 days around the SSD and submitted to their newly appointed DC. The DC will validate any reading received against data provided by the old supplier's DC and, if acceptable send it to both outgoing and incoming suppliers. If an acceptable meter read is not received within eight days of the SSD, the DC will generate and send out a "deemed reading" to be used instead.
- 2.38 If either supplier or the customer does not agree with the meter reading or the estimate then both suppliers need to communicate with each other to agree an alternative reading, which will then be submitted to the new DC. This is known as the "disputed reads" process. Ofgem raised concerns in June 1999 about the lack of an agreed process to track and resolve disputed CoS reads, especially given the problems experienced and lessons learnt in the gas sector. A working practice and data flow has been developed and has recently been included in the DTC, but is still not in consistent use.

### ***Supplier Experiences***

- 2.39 The transfer processes have on the whole performed reliably for suppliers. However there is concern that in some cases the effort required has been greater than expected, too many customers have failed to transfer or experienced problems and improvements could be made in a number of key areas.
- 2.40 The existing transfer processes in electricity involve the transmission of a considerable quantity of data between many industry participants, including 18 suppliers, the 14 distribution businesses and their MPASs, and over 14 potential MOPs, DCs and DAs. Up to 33 data flows are involved in a transfer, containing up to 132 different data items. Such a large number of transactions are not automatically problematic but current industry structures often mean that responsibilities and incentives are sometimes confused. Also, participants are

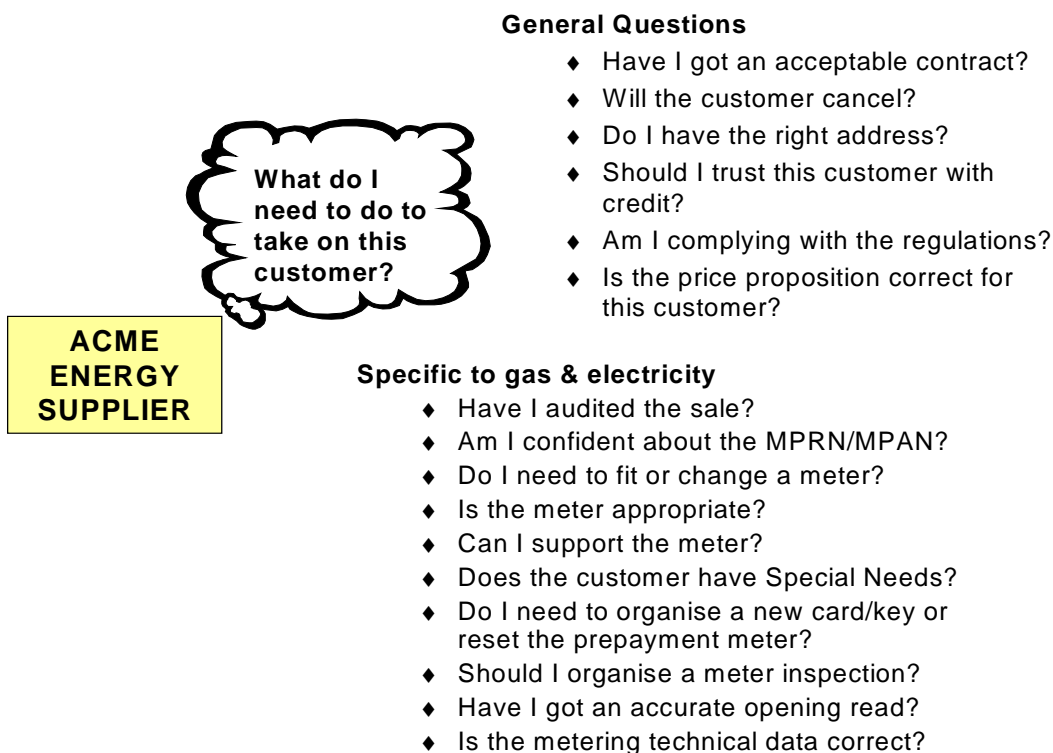
not always consistent in their interpretations of data definitions and industry agreed working practices.

- 2.41 Fewer roles and fewer transactions are currently involved in the gas transfer processes, but the extension of competition in metering services could increase complexity. Questions currently being considered include, for example, what access will parties have to metering data, who will hold this data, how will data quality be maintained and where will responsibilities for data lie. Currently, Transco holds key metering data, which it collects and maintains when undertaking metering work and which it provides to facilitate competition in supply over its network.

### **Initiating the transfer**

- 2.42 When taking on a gas or electricity customer, a supplier has to complete a number of checks and activities, such as described in Figure 2.2. Issues related to many of these areas are discussed below.
- 2.43 Suppliers can first hit problems when they are trying to determine the meter point reference numbers that apply to their new customers. They will have obtained from the customer the address of the property to be supplied, and maybe the MPRN and MPAN which are printed on the bills from the incumbent suppliers. In electricity, the full MPAN (referred to as the Supply Number) must be printed clearly on customers' bills in accordance with schedule 5 of the MRA. Ofgem has proposed that a similar requirement should be introduced into gas to ensure that MPRNs are formatted and positioned clearly to help customers find this data amongst all the other reference numbers scattered over all sides and pages of the various styles and formats of bills produced. However, many customers do not keep their bills, do not have them to hand or have not yet received one.
- 2.44 A supplier can try to find the reference numbers by matching the address supplied by the customer to a dataset of the metering points on each network, published quarterly on CDs by each distributor and Transco for use by licensed suppliers. Transco also hosts a web site that gives suppliers access to more up-to-date information on the sites on its network. Each MPAS and SPA service separately operates help lines for suppliers and customers to enquire about the

reference number for a site. Suppliers will typically use batch processes, interactive queries of the datasets and web sites, and calls to the SPA/MPAS help lines when trying to find the MPRN/MPAN if they have not obtained it from the customer.



**Figure 2.2: Checks that suppliers need to undertake when transferring a customer**

2.45 Suppliers are not always able to find a site with a matching address and obtain the associated MPRN or MPAN. The data published by Transco and the distributors does not always provide a unique address for each site. For example, flats within a particular building may have the same address recorded, even though they have their own metering point. Supplementary information is needed to identify which MPRN/MPAN to select, and hence prevent transferring the wrong customer. Transco does publish the meter serial number held for each metering point, which can be used by suppliers as an additional check. However, the quality of the meter serial numbers recorded is questionable, as partial serial numbers were held by British Gas pre-competition, and a large

proportion have not been updated since the migration of that data to Transco. Transco is undertaking a project to improve the quality of meter asset details. To date Transco has updated 3.8 million records, such that 79% of meters now have complete meter model and address details. Transco projects that this will have increased to 83% by the end of 2000.

- 2.46 Transco did make considerable efforts to clean its address data before the introduction of competition and has achieved a high level of conformance to the Postcode Address File (PAF) format. There is a lack of consistency and standardisation in the way that the 14 MPAS services hold and publish address data, which makes it more difficult to locate the correct site, requiring greater manual intervention and contact with the MPAS. In the electricity market, meter serial numbers are not published, so this additional validation check is not available.
- 2.47 The industry is aware of the significant implications of shortcomings in the address data held against metering points. The supplier may select the wrong site and hence the wrong customer to transfer, leading to an erroneous transfer. The transfer of the customer may be delayed while the supplier attempts to locate the correct reference number. The need for manual intervention increases the costs to both the suppliers and the PGTs and distributors. Working groups in both gas and electricity sectors have identified the need for metering point addresses to be unique, current and to a standard format and have examined the processes and activities that need to be in place to achieve these objectives. In the electricity sector, the Address Data Working Group of the MRA Development Board are reviewing a Standardised Address Format, which is available from the Ofgem web site.
- 2.48 Some sites that are taking gas or electricity are not included on the databases of distributors and PGTs due to errors incurred at the migration of data from the original monopoly businesses or failures in subsequent processes to record connections and disconnections. Registration of these missing sites requires significant additional effort and costs for suppliers, firstly in verifying that the site details are "missing" and then in chasing the incumbent supplier and PGT/distributor to undertake the actions necessary to make the site ready for transfer.

- 2.49 PES distributors are required by their licence to ensure that all sites that are supplied with electricity in their area are recorded on their metering point registers. Similarly, PGTs are required by their licence to keep a record of the individual premises to which they are conveying gas. This is necessary to maintain the safety of networks and ensure that charges are shared on an appropriate basis between all participants.

### **Chasing data**

- 2.50 The customer may have provided some information about the type of meter installed – Economy 7, pre-payment etc. – and maybe a recent bill from the incumbent supplier, but the new supplier needs to obtain technical data that is usually not known to the customer. In both of the existing transfer processes the incoming supplier commits to take on responsibility for a site on a specified date before it has received any data relating to the customer’s site, other than the core MPAN in electricity and the MPRN and meter serial number in gas. It then responds to issues that subsequently arise through the transfer process and is far from certain that the transfer will go ahead smoothly and that an account will quickly be set-up on its billing system. As well as not knowing whether the incumbent supplier will block the transfer, there may be substantial delays in receiving necessary data and the data it receives may raise issues that need to be resolved.
- 2.51 In the electricity market, suppliers rely on timely delivery of accurate metering information by agents that were contracted with the previous supplier. Following registration with the MPAS, the new supplier initiates a sequence of data flows that send instructions and data between many participants. Several market participants have suggested that there are too many flows for that amount of data and many unnecessary instructions, especially when agent competition is fully in place. The lead times allowed for market participants to respond to instructions and requests contribute to the extended overall transfer lead time, as shown in Figure 2.3. Many of the problems that suppliers experience result from discrepancies in the data that they receive from different agents (e.g. the meter reading received from the DC is not consistent with the meter technical details received from the MOP) or the receipt of data flows out of sequence. The “Supplier Hub” principle in the electricity industry asserts that a supplier is

responsible for the performance of its agents, but some suppliers do not have adequate controls in place to ensure that the data held by their agents is consistent and correct.

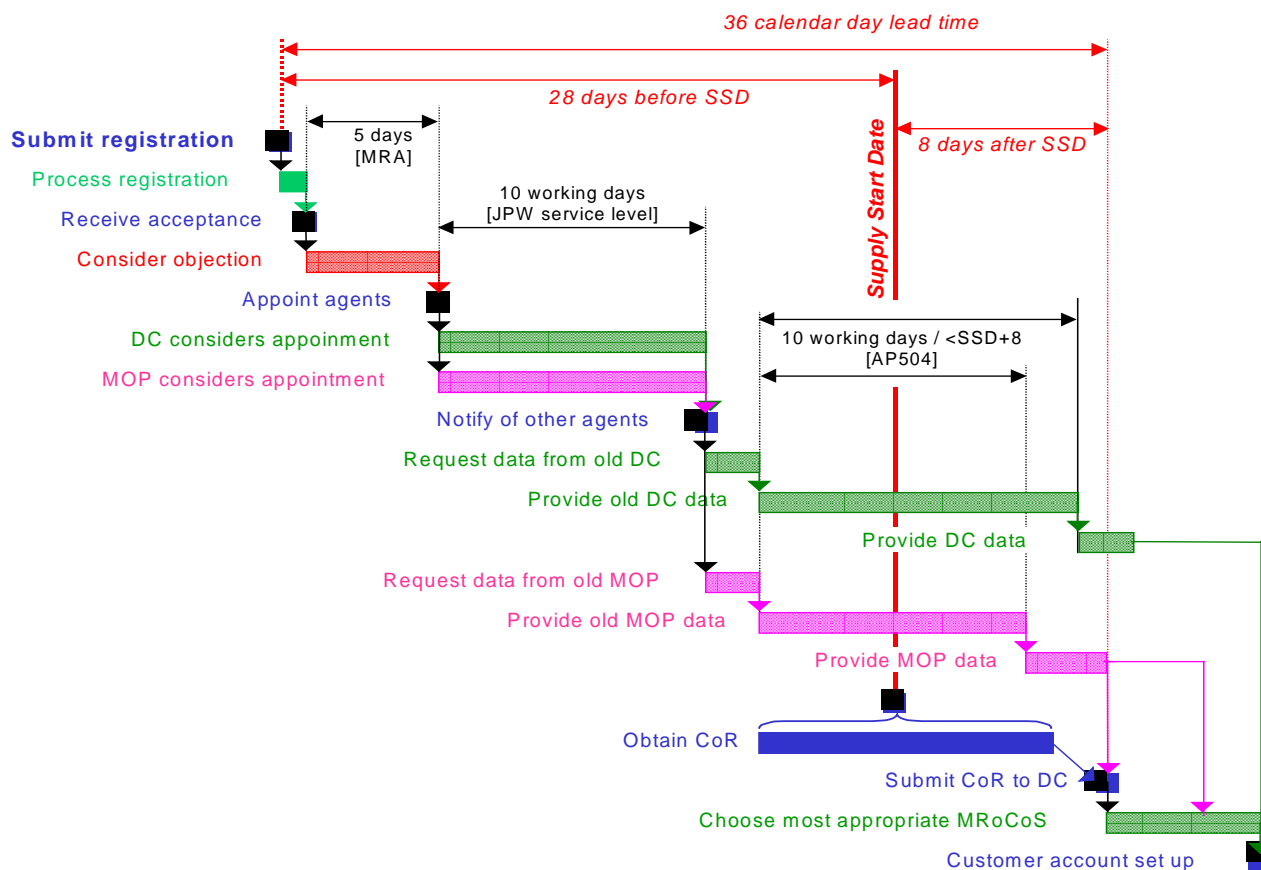


Figure 2.3: Lead times for an electricity transfer

2.52 Suppliers could reduce some of the lead times associated with transactions with their appointed agents. However, the lead times are set out in contractual arrangements with the agents, many of which are still the original contracts with PES agents as developed by the Joint PES Workstream before the introduction of competition. These Joint PES Workstream Agreement (JPWA) contracts do not give suppliers effective leverage over their agents, so increasing performance standards can be difficult. Suppliers now have the option to change agents, but are still wary of doing so at the time of customer transfer, because of the potential for problems with processes or the response of old agents.

2.53 Inherent in both the MRA and Network Codes is the principle that the incoming supplier has responsibility for the actions relating to the transfer of the customer. However under the current process the incoming supplier has limited control over many aspects of the process or the associated costs. The lack of data available to the incoming supplier in advance of registration means that they are often not empowered to identify and resolve transfer issues early. In many instances the new supplier is reliant on information provided by the old supplier and their agents, or requires their involvement to help resolve problems and exceptions. The industries have established codes of practice to handle many of these communications, but these are not enforceable under contract and in many instances rely on the goodwill of the other party. The new supplier may therefore encounter problems in attempting to resolve issues. In addition, the old supplier has very little leverage to get its needs dealt with where it relies on the co-operation of the new supplier and its agents, for example in being provided with the opening meter read by the new supplier's DC.

#### **Change of Supply (CoS) meter readings**

2.54 A good CoS meter reading contributes greatly to the quality of the customer transfer experience. Unfortunately there have been a number of problems with the operation of the current processes in this area. The timing of the activities associated with collection and submission of the meter reading is decoupled from the activities associated with making and confirming the contract with the customer. This could potentially occur in the electricity industry but in practice has not taken place to any meaningful extent. This can make it difficult to prompt the customer to act at the relevant time, especially when the call to action to obtain a meter reading conflicts with the marketing department's attempts to provide the customer with a comfortable welcome to their new supplier.

2.55 The time limited window for taking CoS meter readings increases the challenge and makes the timing of the request for the customer to provide a meter read critical. Interestingly, a higher proportion of actual meter readings are obtained from customers or meter reading agents for gas transfers than electricity, despite the much narrower window in the gas process in which readings should be taken. This may partly be explained by customer difficulties in reading the

greater complexity of electric meters, but also reflects the financial incentive on gas suppliers to obtain an actual reading. Before the final roll-out of competition, Transco started to charge suppliers for estimates that it generates for transfers, which encouraged them to increase their efforts and performance in this area. It was argued that incoming suppliers who did not provide a valid actual meter reading to Transco should not increase the costs for other suppliers. The cost of providing the estimate should therefore be attributed to the party that required the estimate to be generated and used for the transfer.

- 2.56 The limited data that is available to the new supplier does not help them to validate any reading that is obtained, or present a good impression at one of the first service transactions they undertake for their new customer. BGT originally resisted the release of information that would have proved useful, such as the last actual meter reading taken, because they were concerned about the commercial implications of incoming suppliers systematically under-reporting CoS meter readings. Experience of operating in the competitive market has shown that actual meter readings make transfers easier for both suppliers and the customer and the benefits of having information outweighs the commercial and regulatory risk of attempting to manipulate the CoS meter reading.
- 2.57 The electricity process allows the incoming supplier to submit a CoS meter reading to its newly appointed DC, but the data flow needs to include technical details (such as meter serial number) obtained from the previous MOP. Suppliers have on occasions experienced problems in obtaining data from the previous MOP in time, which has prevented them from submitting acceptable CoS readings. The current gas data flows do not mandate that the meter technical information is included if the supplier procures a cyclic meter reading service from Transco, and in any case this information is provided by Transco, usually before the CoS meter reading window. However, some problems have been experienced, particularly by suppliers who do not use Transco's cyclic meter reading services as these data flows require the inclusion of technical information. Transco is proposing that all suppliers should move to this way of working. This could reduce the level of transfers based on actual CoS readings and lead to a corresponding increase in problems for suppliers.

- 2.58 Even when suppliers do submit good CoS readings, these can be rejected by Transco or the DC, and replaced with estimates or deemed readings which range from a few kWh different to completely at variance with the actual reading obtained. The outgoing supplier should have an incentive and be in a position quickly to identify estimates that do not match its previous billing history, but Ofgem has needed to take action to encourage several incumbent suppliers to improve their performance in this area. The incoming supplier may not find out that the estimate is questionable until it obtains its first actual meter read after the transfer. Again this can make the customer's perception of their new supplier less than satisfactory.
- 2.59 Suppliers have to deal with customer queries and complaints about CoS readings and estimated readings appear to be more likely to result in queries than actual meter reads. The industry processes for agreeing alternative CoS readings have been added as voluntary workarounds after the introduction of the main infrastructure and interfaces. There has been much discussion within the industry about the costs and response times associated with these processes and the impact on the customer. The tracking and management of agreed reads by gas suppliers, particularly BGT, was investigated by Ofgem during 1999 and substantial improvements have now been made. The lessons learnt have yet to be fully implemented in the handling of disputed reads by electricity suppliers, even though they are often the same companies. Ofgem remains concerned about the high number of old disputed reads that have still to be resolved.
- 2.60 The quality of estimates generated by Transco has attracted much criticism from gas suppliers. The primary cause of an inaccurate estimate would appear to be a poor record of historic meter reads held by Transco for a metering point. Transco took the original data from BGT in 1997 when preparing the SAM databases for the roll-out of competition, but there has been much opportunity to improve the site data since then. This suggests either that there are problems with the processes for submission and acceptance of meter read data, or that there are insufficient obligations and incentives on Transco and suppliers to ensure that meter reads are taken and that the data held by Transco is adequate for this purpose.

#### **Supplier Agreed Read (SAR) Avoidance Process**

A group of gas suppliers are attempting to reduce the number of agreed reads being initiated through development of the SAR Avoidance Process. This process seeks to facilitate the provision of an estimated meter read and other details, by the incumbent supplier to the incoming supplier. The incoming supplier is able to obtain this information shortly after they have registered the customer to transfer and use the estimated meter read to validate a read provided by the meter reading agency or customer, or to send to the customer as the read that would be used for their transfer. Customers are then able to agree the read or provide an alternative.

This is a positive move by suppliers to solve a problem that affects their operations and the customer's transfer experience. It is an attempt by suppliers to supplement the existing framework to provide an enhanced service. The SAR Avoidance Process is a response to a number of issues including the challenges of obtaining actual reads, the poor quality of some estimated reads and the high cost of resolving disputes about CoS reads. However, it does not tackle the root causes of these issues and has elected to procure an additional facility because the suppliers did not feel able to change the existing framework to address those issues.

The SAR Avoidance Process is one of the first independent attempts by a group of gas suppliers to collectively procure a service from a third party. Collective procurement throws up a number of issues for the industry to consider, such as the mechanisms by which the service will be paid for on an ongoing basis, the governance of changes and monitoring of performance. In order to deal with concerns, the ITT for the service provider was in itself handled through an independent procurement body. Now that a service provider has been chosen, a number of suppliers have expressed interest in progressing the project. It remains to be seen whether the suppliers can implement the SAR Avoidance Process, or how suppliers attribute costs to suppliers who join the project at a later date.

The provision of the SAR Avoidance Process raises a number of regulatory issues. If the service is to be outside the direct regulatory framework and industry governance arrangements, there will need to be sufficient safeguards to ensure that the service is delivered to required standards, with protections for participating suppliers. Suppliers will need to have confidence that they can co-operate successfully with each other out of the regulated arena and in a competitive market. Ofgem will also need to be confident that the SAR Avoidance Process does not provide a barrier to entry to new suppliers.

**Figure 2.4: The SAR Avoidance Process**

- 2.61 Electricity participants claim that deemed reads are substantially more accurate than estimates generated by Transco and usually acceptable, but there are still approximately the same proportion of disputes about deemed CoS reads as occur in the gas industry.
- 2.62 Exercises have been initiated in both gas and electricity industries to investigate the feasibility of the outgoing supplier providing an estimate of the CoS reading early in the transfer process, which the incoming supplier could propose to the customer to get agreement or an alternative. The quality of such an estimate would similarly depend on the meter reading history held by the incumbent supplier. A number of issues have been encountered during consideration of the SAR Avoidance Process for the gas sector, which demonstrate the problems faced when trying to change or enhance the current arrangements.
- 2.63 The incoming supplier may find that by the time that it should be issuing the customer with their first cyclic bill, it has still not received all the data or

resolved outstanding issues that are required to set up the customer account on its billing system and generate the bill. For a small proportion of cases, new electricity suppliers have experienced delays in getting meter technical data, read schedules and change of supplier reads. Discrepancies on the quality of the data, due to its origin from a number of sources also cause problems in setting up a customer's billing account. Similar issues have occurred in the gas market due to poor recording of meter asset changes so that the information held by Transco against a site and provided to the new supplier on transfer does not always correspond to the meter in situ. Suppliers report that it can be difficult and long-winded to get data queries considered by Transco.

- 2.64 The outgoing supplier may have similar problems in generating its final bill, usually because it has not received the CoS reading or because that reading is in dispute. The outgoing electricity supplier has no contractual lever on the incoming supplier, with whom they must co-operate to amend a disputed CoS read, or the new DC, which is responsible for sending out the CoS reading, even where that DC used to work for the outgoing supplier. They must instead rely on the provision and timescales set out in the relevant industry agreements. These problems lead to delays in production of final bills, which in turn can lead to problems in getting paid by the customer.

#### **Other issues**

- 2.65 An erroneous transfer occurs when a supplier takes over the responsibility for the incorrect site or transfers a customer without gaining their proper consent. The main causes of erroneous transfers include:
- ◆ Where the supplier makes a mistake in selecting the MPRN or MPAN for registration, or there is a data discrepancy. In this situation the customer who wanted to be transferred continues to be billed by the incumbent supplier, and the new supplier takes over responsibility for the site of a different customer with whom they may have had no contact. The mistake could be recognised when exit letters and welcome packs are sent out, but in many cases is not identified until considerably later by either customer.

- ◆ Where a customer cancels their contract within the allowed cooling-off period, but the new supplier does not manage to stop the transfer proceeding.
- ◆ Where a sales agent has either misinformed the customer or forged the contract.

2.66 Suppliers have developed working practices to repatriate the customer to their original supplier in such a way that the customer has only to pay that supplier for the gas or electricity consumed. Whilst these working practices help to ameliorate the impact, the customer can still suffer considerable inconvenience, indignation and frustration. In most cases the outgoing supplier will have already closed the customer's account, and new Direct Debit mandates may need to be obtained. When the problem is not picked up and resolved until several months after the erroneous transfer, the gaps in the billing may cause the customer payment problems. Even when an erroneous transfer is identified some time before the transfer of supply responsibility, the incoming supplier has limited ability to stop the transfer process. Those customers impacted may not understand why, and perceive that the new supplier is being intransigent or incompetent.

2.67 Around 15% of households move home every year, which provides both opportunities and threats for suppliers. The ideal situation is that their customer elects to be supplied by them at the new home, potentially adding another property to the supplier's portfolio, and that the supplier remains responsible for supplying the new customer moving into the property they already supply. This presents a number of marketing and communication challenges and the transfer processes add to the obstacles. Because of the lead times involved in taking over responsibility for supplying a site, the original customer will probably want to contact the incumbent supplier at their new home, to confirm the meter readings on the date they moved in. When they do make contact, it is likely that the incumbent supplier will take the opportunity to try to retain the customer. If the incumbent supplier is not aware that their customer has moved out, then they may block the transfer on the basis that the previous occupier has an outstanding debt or has not terminated their contract.

- 2.68 The electricity rules and processes do allow an incoming supplier to register a transfer for the next day (even though this rarely occurs in practice) and to indicate that the transfer relates to a change of occupier to prevent the outgoing supplier from blocking the transfer. No such provision exists in the gas industry.
- 2.69 Some electricity suppliers have expressed concern over the information that is available to them to enable them to set tariffs for customers where the supply arrangements for those customers include a dynamically switched load. Typically, these customers are using electricity for heating and the heating load is capable of being switched on or off remotely via a radio signal. This enables a supplier to take advantage of the times when electricity is cheap and to offer lower prices to customers. It may also be used to manage capacity constraints on distribution systems in remote areas. A new supplier cannot get control of the switching time without an adjustment being made to the customer's meter, which is likely to involve an interruption to the customer's supply and additional costs. Dynamic teleswitching is a particular feature in Scotland and customers have complained that it has restricted their choice of supplier. Ofgem will be consulting separately on this issue.
- 2.70 Gas suppliers and shippers have experienced problems in discharging their responsibilities to supply customers located on IPGT networks. Suppliers and shippers have developed, in conjunction with Transco, electronic interfaces and standard communication protocols for exchanging data with Transco the largest PGT.
- 2.71 Shippers and suppliers have clearly stated that they require common interface protocols for dealing with all PGTs. Not having such commonality prevents suppliers from easily registering customers on all IPGT networks. It can delay and in some cases may even prevent customers on IPGT networks from transferring to the supplier of their choice. IPGTs have made efforts to develop a common electronic interface with shippers and suppliers, however, progress has been slow and the release by Transco of some of the relevant registration data flow formats was delayed whilst concerns about the associated intellectual property rights were resolved.

- 2.72 Suppliers and shippers have also expressed concern that their ability to compete on IPGT networks is hampered by the lack of accurate and standardised meter point address information published by IPGTs. The lack of meter point data could result in transfer problems for customers who live in properties located on IPGT networks. Suppliers can find it very difficult to locate the details required to transfer the customer and in some instances may transfer the incorrect customer. IPGTs in particular, need to provide frequent refreshes of their meter point address data that they publish as the sites that they serve are typically associated with new developments. In such instances the address of the property such as "Plot 1" is likely to change after the supply has been initiated and the customer has moved into the new property. These issues are made much more problematic for suppliers when Transco incorrectly adds MPRNs and records to its register of metering points for sites that are actually on IPGT networks.
- 2.73 Because of their roots in the industrial and commercial sector, the gas customer transfer arrangements were designed to prevent disclosure of information on the previous supplier (and agents) responsible for a site. Practices and facilities have been added later to allow a supplier to obtain the identity of the other supplier in cases where they need to co-operate to resolve issues. In the electricity sector, however, the combination of data being forwarded by incumbent agents to new agents and the release of supplier identities provides much information on the market activity and the contractual relationships of competitors.

#### **Impact on competitive position**

- 2.74 The current transfer processes place significant limits on the ability of a supplier to differentiate their services or approach in what should be a key area in a competitive market. Where all suppliers are forced to use the same transfer process, there are less opportunities or pressures for them to innovate. Were the transfer process to be less prescriptive and more flexible, suppliers would have a greater ability to offer different levels of service to customers.
- 2.75 Believing that the customer experience could not differ significantly between companies and that there was little scope to obtain competitive advantage, some suppliers have considered contracting out their customer registration activities to

third parties. They believe that this would allow them to reduce their exposure to the risks and uncertainty associated with the high levels of exceptions and problems that are a feature of the transfer processes, without impacting their ability to be competitive.

- 2.76 Many suppliers utilise a number of channels to communicate and engage with prospective customers. As well as the doorstep sales approaches that have generated most contracts to date, suppliers are making increasing use of telesales, direct marketing and the Internet. As discussed further in the next chapter, the characteristics and lead times of the current transfer processes are not appropriate for some channels to market. The method of approach to customers is a key activity in which suppliers should be able to differentiate themselves and gain competitive advantage. New entrants could well question the validity of processes agreed and maintained by the SPA/MPAS framework, incumbent suppliers and/or agents that take away the opportunity to achieve such differentiation.
- 2.77 Suppliers may be achieving lower marketing conversion rates and appear to be experiencing higher contract cancellations than in comparable markets or which could potentially be achievable. The typical transfer lead-time increases the chance that customers will become disillusioned with the transfer process and cancel their contract, forget that they made a contract, move home, or enter into a contract with another supplier. These factors raise the level of apparent erroneous transfers, and increase cost for suppliers, other market participants and in the end for customers. Experience of problems with their transfer also influences a customer's willingness to consider a subsequent switch and reduces the likelihood that they would recommend that their friends and relatives change supplier.
- 2.78 The current transfer arrangements impose costs on suppliers and appear to restrict the scope for suppliers to re-engineer their operations to substantially reduce these costs and improve customer service. The restrictions are in part set by the need to conform to mandatory data flows and the reliance on other parties over which the supplier has little leverage.

- 2.79 Suppliers have indicated that transferring customers requires considerable manual input to what were designed to be systematic processes. For the typical supplier, it seems that about 35% of all customer transfers result in “exceptions” that require some kind of manual intervention, for example in processing contract cancellations, finding the MPRN/MPAN, amending CoS reads or repatriating erroneously transferred customers. These exceptions increase the effort and costs associated with transfers and have caused many suppliers to exceed their budgeted spend. The graph shown in Figure 2.5 indicates the typical profile of cost per customer.
- 2.80 The majority of suppliers in the gas and electricity markets supply both fuels, often providing an additional discount if they do so. Customers reasonably expect that when entering into a contract for both fuels, both the gas and electricity parts of the contract will be handled in the same way. Inconsistencies between the address data held by PGTs and distribution companies can make this very difficult for suppliers. Where the meter and address data is difficult to locate for one of these products, this may delay the transfer for both fuels where suppliers are trying to transfer them simultaneously, or may mean that customers are transferred for one fuel in advance of the other. This may cause confusion and concern for customers who believed that they signed up for dual fuel deals.
- 2.81 The complexity of processes also means that they are difficult to explain to customers and, when things do go wrong, customers may perceive that the incoming supplier is incompetent even if the real problem lies elsewhere. Suppliers’ customer-facing staff often find it difficult to understand and explain the process or reasons for problems and delays. In several instances this has led customer operators to attribute blame incorrectly to another party, often the other supplier. Several suppliers have also noted that the level of exceptions and the difficulties in explaining and resolving customer issues have a significant negative impact on staff morale.

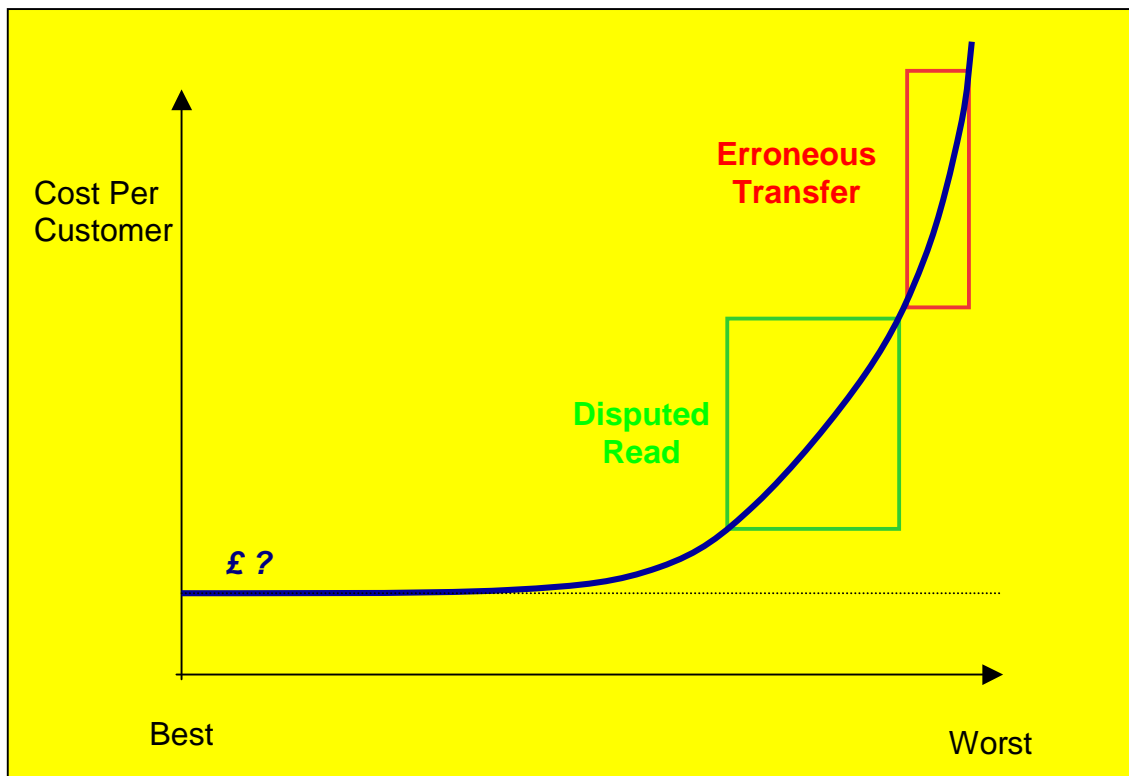


Figure 2.5 : Typical profile of costs for transfers

### *Customer Experiences*

- 2.82 The customer surveys undertaken for Ofgem by MORI found that the vast majority of customers found it fairly or very easy to switch supplier. However, a significant number of customers do experience problems when attempting to transfer to their chosen supplier. The cost and time taken to resolve the issue, uncertainty about who needs to do what to resolve the complaint and the lack of clarity over who was responsible for causing the problem increases customer frustration when something goes wrong.
- 2.83 Problems may lead customers to complain to suppliers, MPs, Ofgem, energywatch or other customer representative groups and they may influence a customer's decision to switch supplier subsequently or attempt to cancel or reverse their transfer. Bad publicity or word of mouth will also influence the decisions of other customers to transfer.

2.84 When making the contract in the first place, the new supplier may ask for lots of information that may not make sense to the customer. In addition, their previous supplier may have used different terminology. For example, in a dual fuel sale it is unlikely that the average customer will be able to appreciate the differences between their M-Number, Metering Point Reference Number, Supply Number or their Customer Account Number. From a customer's perspective, it should be enough to simply give the address of their property, but suppliers often seem unable to find the address, or say that it is missing from the industry databases, as suggested by Figure 2.6.

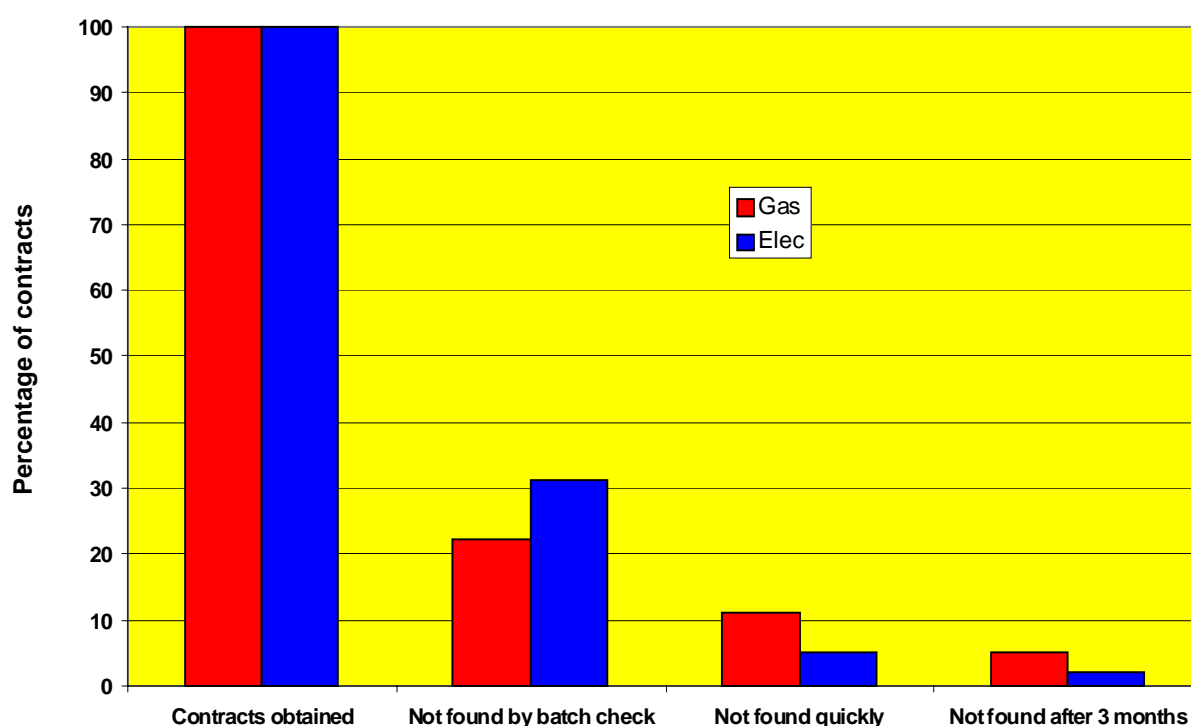


Figure 2.6: Difficulties in finding an MPRN or MPAN

2.85 One of the most severe impacts on an individual customer occurs if they are erroneously transferred. The main causes of erroneous transfers were discussed earlier, but the customers involved often perceive that their problems have been caused by the incompetent or unethical activities of the incoming supplier. The working practices developed to repatriate the customer to their original supplier help to ameliorate the impact, but the customer can still suffer considerable inconvenience, indignation and frustration. In many cases the outgoing supplier will have already closed the customer's account and new Direct Debit mandates

may need to be obtained. When the problem is not picked up and resolved until several months after the erroneous transfer, the gaps in the billing may cause the customer payment problems.

- 2.86 Customers that do wish to switch suppliers may accept, but not understand why, there is such a delay between making a contract and actually transferring. The lead-time does not add any value to the customer, particularly after the contract cooling-off period is over. As suggested earlier, customers may decide not to proceed, forget that they have signed a contract, decide to contract with someone else, or move home. The extended lead time therefore increases the likelihood of problematic cases for both suppliers and customers.
- 2.87 In addition, the multiple communications between supplier and customer add costs and may not appear necessary. Customers may feel that they are continually being told that the new supplier has a contract, is about to start the transfer, or is happy that the transfer is going well. But when the supplier asks for a meter reading, limited data is given to help the customer. The customer may be given little specific information about the location of their meter, its serial number, what the register looks like, how many dials/numbers should be read or what the last reading was and when it was taken. This information would be particularly useful to customers that have just moved into a property, or where they have not read the meter before.
- 2.88 When a customer does provide a CoS reading, the new supplier often is not able to validate that reading. Customers are often disappointed and frustrated when the reading used for the transfer differs from the reading they provided, especially when the replacement estimated reading is patently incorrect.
- 2.89 The customer may experience problems in getting a final bill from the outgoing supplier, and if the closing read has been disputed then this can add significant delay. Such delays may make it difficult for the customer to pay, especially if the final bill arrives at the same time as their first bill from the new supplier. The final bill may not match their previous billing history especially if there has been a history of billing to estimated readings.
- 2.90 Whenever a customer does experience a problem, they may not know who is responsible or which organisation they need to contact. During the roll-out of

competition, customers seeking to resolve a query were often passed around between suppliers, shippers, agents, PGTs or distributors, often turning to the regulator or consumer groups to achieve satisfactory resolution. Supplier performance in resolving customer issues does appear to have improved as they gained experience of competition, and there is a reasonable degree of co-operation between competitors in this area. However, some customers may still get a poor perception of the competitive market, as a result of conflicting messages and explanations that do not make sense. It can still take a lot of effort by customers to sort out problems with their transfers.

- 2.91 As mentioned above, around 15% of households move home every year. In a competitive market customers may find that their preferred supplier is not responsible for the supply of gas or electricity to their new home, or that they do not wish to be supplied by the company that is responsible. In such cases it is likely to take several weeks before home movers are transferred to the company of their choice. In the intervening period they will be supplied under terms that may be less attractive than those of the customer's chosen supplier.
- 2.92 The home mover will probably also want to contact the incumbent supplier to confirm the meter readings on the date they moved in, but will first need to establish their identity. The process of identifying the incumbent supplier can be time consuming as it involves contacting the PGT or MPAS customer enquiry service. Until recently, Transco would only provide the identity of the shipper responsible for the site, so there was a further call for the customer to make to identify the incumbent supplier. Customers may also be confused by changes in the branding of electricity distributors and PES supply businesses, or not recognise that their site is connected to an independent PGT network. When they do make contact, it is likely that the incumbent supplier will take the opportunity to try to retain the customer. Many customers become frustrated with this complexity and often give up and stay with the incumbent suppliers to the property.
- 2.93 The electricity rules and processes do allow an incoming supplier to register a transfer for the next day (even though this rarely occurs in practice), to indicate that the transfer relates to a change of occupier and thus prevent the outgoing supplier from blocking the transfer. No such provision exists in the gas industry

and if the incumbent supplier is not aware that their customer has moved out, then they may block the transfer on the basis that the previous occupier has an outstanding debt or has not terminated their contract. This can be extremely confusing and frustrating for customers.

### ***Distributor and PGT Issues***

- 2.94 In the gas market there are currently 11 licensed PGTs. By far the largest PGT is Transco with approximately 20 million metered sites. In the electricity market there are 14 licensed distribution companies. Each distribution company effectively has a monopoly for the distribution of electricity within its geographically defined area. These areas range in size from 0.83 million to 3.38 million meter points. Both PGTs and distribution companies, as operators of the gas and electricity networks, have licence obligations that require them to facilitate competition on these networks and therefore provide appropriate mechanisms to allow customers to transfer between suppliers.
- 2.95 Each network operator needs to know which supplier to bill for transportation or distribution of gas or electricity to sites on its network. Transco also administers the gas balancing system and levies charges for imbalances on behalf of the industry. These monopoly operators need to demonstrate that they are billing for all relevant sites, taking payments fairly and not discriminating between suppliers/shippers. Transco provides the service that deals with gas emergencies across all of Great Britain, and the transportation and distribution businesses have responsibility for remedying losses of supply. All these activities require co-ordination with the supplier or shipper responsible for each site.
- 2.96 The provision of SPA or MPAS services is a logical extension to the activities of the transporters and distributors. However, the skills involved in supporting this service are not necessarily the core competencies required to run the transportation/distribution businesses. The requirement to support a competitive infrastructure is significantly different from the activities and controls that were undertaken by the original integrated monopoly companies.
- 2.97 Maintaining metering point address data to a standard format, high level of accuracy and uniqueness has been identified as key to the effective working of the competitive markets. Transco and some of the PESs have already made

major efforts to achieve high levels of address data quality, but the demands on distributors and PGTs from suppliers - for higher standards and sophistication in the management of this data - are only likely to increase. To facilitate competition on their networks, transporters and distributors need to develop or procure the skills and competencies in this aspect.

- 2.98 Data flows and query processes have been developed to enable suppliers to highlight or propose changes to the data maintained by the PGT or distributor. At several points, PGTs or distribution companies have resisted making sensible changes, applied inadequate resources to resolve queries quickly, or not informed suppliers of changes made. Similarly, suppliers have often submitted unnecessary or inappropriate queries, which have taken up the resources of the PGT or distributor.
- 2.99 The PGT and distributor also finds itself holding data that is not related to its main business. Transco holds and provides the data to enable an incoming gas supplier to set-up the customer's billing account. The MPAS holds data required for the registration of a transfer, but the metering details required to set up a customer's billing account are held by metering agents. The MPAS therefore also holds a record of all suppliers and metering agents registered against a site and provides these details to the incoming supplier.
- 2.100 The nature of the responsibilities to facilitate competition on PGT or distribution networks is often unclear. For example, the services that distributors and PGTs need to provide to suppliers and customers to facilitate competition are not fully and consistently defined. Operating help lines and information services for other market participants and millions of customers is now recognised as an essential service, as is the regular publication of addresses for all MPRN/MPANs. Transco also operate a web site that makes key data available to licensed suppliers and shippers, which has proved valuable and cost effective for suppliers, shippers and Transco itself. No distribution company or IPGT has yet followed Transco's example, although many complain of the resources they need to apply to handle the high level of calls to their help lines. There has been little discussion about combined procurement of such services, which would provide an obvious route to achieve economies of scale.

- 2.101 The SPA and MPAS providers can come across as indifferent and intransigent to the needs of other participants. Suppliers have often expressed frustration at the perceived low level of performance of activities associated with data maintenance and provision of MPAS and SPA services and reluctance to undertake work on developing system facilities and interfaces, improving data quality, responding to queries and providing reports, except where it benefits their business. It can be particularly frustrating in the gas sector where Transco has exclusive knowledge about the systems that support SPA and therefore the implications of making changes.
- 2.102 One outcome is that market participants seek to develop alternative arrangements to bypass perceived poor performance by PGTs and distributors. For example, domestic gas suppliers have developed a proposal to facilitate the provision of accurate estimates from one supplier to another, as described in Figure 2.4. This is in response to concerns about the quality of Transco's estimated meter readings, which leads to these reads being challenged by customers and suppliers and an agreed read being raised and the belief that it is not possible to work with Transco to improve the situation.
- 2.103 The main regulatory incentives on PGTs and distribution companies are captured in their licence obligations and in price controls. Price controls provide incentives on companies to improve their efficiency by seeking out cost savings. However, Ofgem needs to ensure that they do not achieve this by impairing the quality of service delivered to customers. There are a number of ways of addressing this concern. Standards of service and related liability payments may be set by the regulator or agreed with the industry and included in industry agreements. In addition a proportion of the regulated companies' allowed revenues might be linked to the achievement of outputs or standards of performance. As part of the Transco price control review, Ofgem is considering whether a proportion of Transco's allowed revenues should be incentivised against its performance in relation to a number of key outputs.
- 2.104 The price controls on Transco and the electricity distribution businesses provide strong incentives for these companies to reduce costs. However, there is a concern that as cost savings become harder to achieve, there may be an incentive to reduce costs at the expense of lower standards of performance. An

audit of Transco's capital expenditure is being introduced to monitor Transco's expenditure against outputs. In addition there are a number of ways in which this concern may be addressed in relation to the provision of SPA and MPAS services. For example, the delivery of these services could be ring-fenced within the price controls or a proportion of their allowed revenues could be linked to explicit standards of performance.

### ***Issues for Other Market Participants***

- 2.105 Other organisations, such as customer representative groups, are affected by the quality of the transfer process. The work of the consumer groups has been hindered by the complexity of the processes, which make it difficult to understand what has happened, identify responsibility for actions and resolve the problem to the satisfaction of the customer. The complexity of the processes also makes it difficult for customer-facing staff to explain the reason for problems to customers. For example, energywatch has to deal with a high level of transfer related complaints. Around 41% of the complaints received by the GCC (now replaced by energywatch) during the period October 1999 to August 2000 were on transfer related issues. However, it is important to set this figure in context. According to published research undertaken on Ofgem's behalf by Mori, over 90% of customers who have transferred have not found it difficult to switch.
- 2.106 Metering service providers rely on the robustness of the transfer processes and quality of industry data to deliver an effective service to suppliers. Some of these providers argue that competition in electricity metering services has been hampered by the complexity of the processes, inconsistent interpretations of data standards and the mandated use of specified communications between suppliers and agents. There would appear to be substantial scope for re-engineering of transactions, but agent accreditation rules that mandate certain actions are perceived to prevent or deter such developments.
- 2.107 Some gas suppliers have delayed moving their meter reading work away from Transco because of problems with the processes for submitting unbundled meter reads to Transco's SPA service. In addition, the current lack of established and defined processes in the gas sector, for example in handling changes in meter ownership and exchange of data, is perceived as an impediment to competition

in gas metering services. Both Ofgem and the industry are working to overcome these issues but there are still challenges to be met.

### *Surveys*

- 2.108 In May / June 2000 Ofgem issued questionnaires to gauge the views of the industry and customer representative groups on the current gas and electricity customer transfer processes. The aim of the questionnaire was to help identify whether respondents felt that there was a requirement for change. In total 26 industry participants and 12 customer representative groups provided responses.
- 2.109 In general, both customer representative groups and industry respondents identified a number of problems with the operation of the current transfer process. There was a broad consensus on the need for change. However, views on the extent and type of the change required varied between respondents. Customer representative groups tending to favour more radical proposals. Several industry respondents believed that it would be appropriate to allow suppliers to implement changes at their own pace, as this would allow them to differentiate themselves to customers.
- 2.110 The key issues raised by the industry and customer representative groups in questionnaire responses were that;
- ◆ Industry data quality issues need to be addressed, in particular to ensure that the correct responsibilities and incentives are in place potentially through a central Industry Data Manager.
  - ◆ Customers require access to the relevant data to allow them to transfer smoothly.
  - ◆ Transfer timescales should be reduced, but not at the expense of quality.
  - ◆ Industry process should increasingly be aligned between gas and electricity.
  - ◆ The processes for challenging and amending inaccurate change of supplier meter readings need to be improved, possibly by formalising them in the mainstream transfer process.

- ◆ The processes for returning erroneously transferred customers need to be improved, possibly by formalising them in the mainstream transfer process.
- ◆ The transfer process is overly complex.
- ◆ The incoming supplier needs to have greater control in the transfer process, particularly in gaining access to relevant data.
- ◆ The level of transfer process exceptions need to be reduced to limit industry and customer costs and improve the customer experience.
- ◆ There are costs associated with changing systems but there are also costs in maintaining systems with the current levels of transfer process exceptions. These cost of maintaining the current position includes amongst other issues; dealing with transfer exceptions such as erroneous transfers, increasing marketing costs by lowering customer conversion rates, dealing with disputes over meter reading and customer complaints. These costs are not always recognised by the companies that incur them due to their relatively low unit cost but potentially high volume nature.

2.111 A more detailed summary of the questionnaire responses can be found in Appendix 1 and the full report, "Responses to Customer Representative and Industry Questionnaires: A Summary", is available on the Ofgem website.

### ***Summary***

2.112 Competition has now been successfully rolled out to all gas and electricity customers. Domestic customers have now had choice over who provides them with their energy supply for over 18 months. In general, the transfer process has proved to be robust. However there are a number of problems with the process design that have led to complaints from customers, market participants, potential new entrants, and other parties. A significant number of customers have experienced frustration with the operation of the transfer process and have spent time, money and effort to resolve problems.

2.113 The customer transfer process has been refined over time but has not, until now, been subject to a full review. The process itself is complex and is becoming

more complex with the further unbundling of previous monopoly services, particularly relating to metering services.

2.114 This chapter has described many of the causes and symptoms of problems with the transfer process. These concerns include; deterioration in data quality; handling of exceptions such as erroneous transfers and amendments to meter reads; the length of time taken to transfer; the complexity of the processes; misalignment of responsibility of new suppliers and their ability to influence outcomes; the responsiveness of the monopoly SPA and MPAS service providers to industry requirements; and the lack of adherence to, or misinterpretation of, licence obligations and industry-wide agreements.

2.115 Our assessment of the current design frameworks suggests that several features have worked well. These include:

- ◆ Transco holding all the data needed by a supplier taking over responsibility for a site. This reduces the complexity of the transfer process and means that the incoming supplier does not have to chase many participants to complete the take-on of its new customer.
- ◆ The open documentation and collaborative development of the data dictionary in the electricity sector.
- ◆ Consistent format and compliance to standard for metering point address data held by Transco. Uniqueness of addresses held by electricity distribution companies.
- ◆ The mechanisms that support robust communications between electricity market participants. Transco's Information exchange Network (IXN) is also robust, but only supports communications between Transco and shippers.

2.116 There would appear to be significant scope to improve several aspects of current operations, including:

- ◆ Transco's performance in handling data queries and improving the quality of meter asset data, meter read data and metering point address data.

- ◆ The performance by some distribution companies and IPGTs in keeping metering point address data accurate, unique and current.
- ◆ The original JPW contractual arrangements between electricity suppliers and their agents, which allow for protracted lead times in some transactions.
- ◆ The SPA services and systems provided by IPGTs, which do not yet support automation of transactions.
- ◆ Enabling home movers to be supplied by the supplier of their choice from when they move into a property.
- ◆ Reliance on non-mandatory working practices for key business processes, e.g. resolution of disputed CoS reads and the return of erroneously transferred customers.

2.117 Present industry governance arrangements mean that responsibility for change falls substantially to industry players. However, while suppliers are held responsible by their customers for poor performance, some argue that they do not have the necessary level of control over systems and processes to manage customer transfers effectively.

2.118 As the intrinsic problems with the transfer process tend to fall relatively evenly across market participants they are similarly bound by its constraints. Suppliers therefore, have not been able to differentiate their services to customers in respect of their ability to conduct the transfer. This uniformity also reduces the pressure for innovation, and the complexity of the process deters new entrants who could challenge existing practices.

2.119 There is both a substantial requirement and an opportunity to improve the quality of the customer transfer process to the benefit of the industry and customers.

### 3. Comparable Experiences

#### *The changing marketplace*

- 3.1 Consumers are becoming increasingly aware of the choice that is available in all sorts of markets and are increasingly competent at evaluating different products and offers. They are subject to direct mailings and media advertising and are exploiting the Internet to retrieve information, obtain advice on the best deals and buy products. Interactive digital television (IDTV) should further extend Internet-type facilities to the mass market as the television in the home is trusted by many in a way that computers are not. The availability of so much information and choice has given some customers an opportunity to change the way they select and interact with their suppliers, whatever the products.
- 3.2 The widespread use of call centres has allowed new product retailers to enter markets with attractive propositions for customers and different ways of undertaking transactions. Internet and IDTV give retailers the ability to deliver much that is not possible or viable through conventional channels, including:
- ◆ 24-hour, 7-day access by their customers, direct into self-serve systems.
  - ◆ Real time marketing, tailoring of products, messages and offers to individual customers, guiding their journey around the pages of the web site and following up visits and enquiries with tailored responses.
  - ◆ Seamless links to the sites and specific pages of affinity partners and billboard space for other retailers of related products.
- 3.3 New ways of interacting with customers also present opportunities to reduce costs and improve customer service. For example, the cost of an Internet transaction can be a fraction of the cost of dealing with the equivalent transaction through call centres, retail outlets, or indeed on the doorstep. Information can be provided cheaply; customers can complete application forms on-line; queries can be submitted and responses sent by e-mail; data such as meter reads can be fed in by customers and checked immediately; bills can be delivered; and payments can be arranged on-line.

3.4 Customers have already seen the benefits of new developments in a variety of other sectors, including:

- ◆ Insurance, which many people now buy over the phone or Internet.
- ◆ Banking, where customers can now have constant access to their bank accounts, either via by phone or via the Internet/IDTV.
- ◆ Travel, where a host of call centres, Teletext and Internet sites provide information as well as the ability to check availability and buy tickets. The cost of processing airline ticket sales has reduced considerably through the use of services such as Amadeus, Galileo and Sabre, which provide access to the current schedules and bookings of many airlines.
- ◆ Share dealing, where technological developments have reduced the costs of trading and opened the markets to a wider customer base.
- ◆ Home delivery by supermarkets.

3.5 Customers expect more immediate gratification – quicker processing of bank transactions, shorter product delivery times etc. – and are less tolerant of poor service from the organisations with which they deal. The changes in the way that customers interact with their suppliers have implications for the mechanisms that each sector employs in the background to support the co-ordination of activities of the various participants that are needed to deliver such services to customers. Many sectors have developed or refined background systems and processes that allow participants to conduct transactions with their competitors and agents, or service providers have delivered facilities that suit the business needs of each sector.

3.6 Whilst there may be sector specific characteristics, gas and electricity will increasingly be considered as just another product, maybe wrapped up with similar products and services into attractive bundles that suppliers provide to domestic customers. Companies will challenge aspects of the delivery of these products that are not consistent with their experience in other sectors, or prevent them from operating effective and efficient processes. Such challenges might be expected to exert pressures to reduce the cost to transfer customers and reduce

the levels of exceptions, as described in Figure 3.1. Customers as well will question why their experience of buying other products – such as immediate or rapid delivery and very few problems – is not replicated in the switching between gas and electricity suppliers. Differences will become particularly obvious when customers buy bundled products, or use the more immediate channels, such as call centres or the Internet/IDTV.

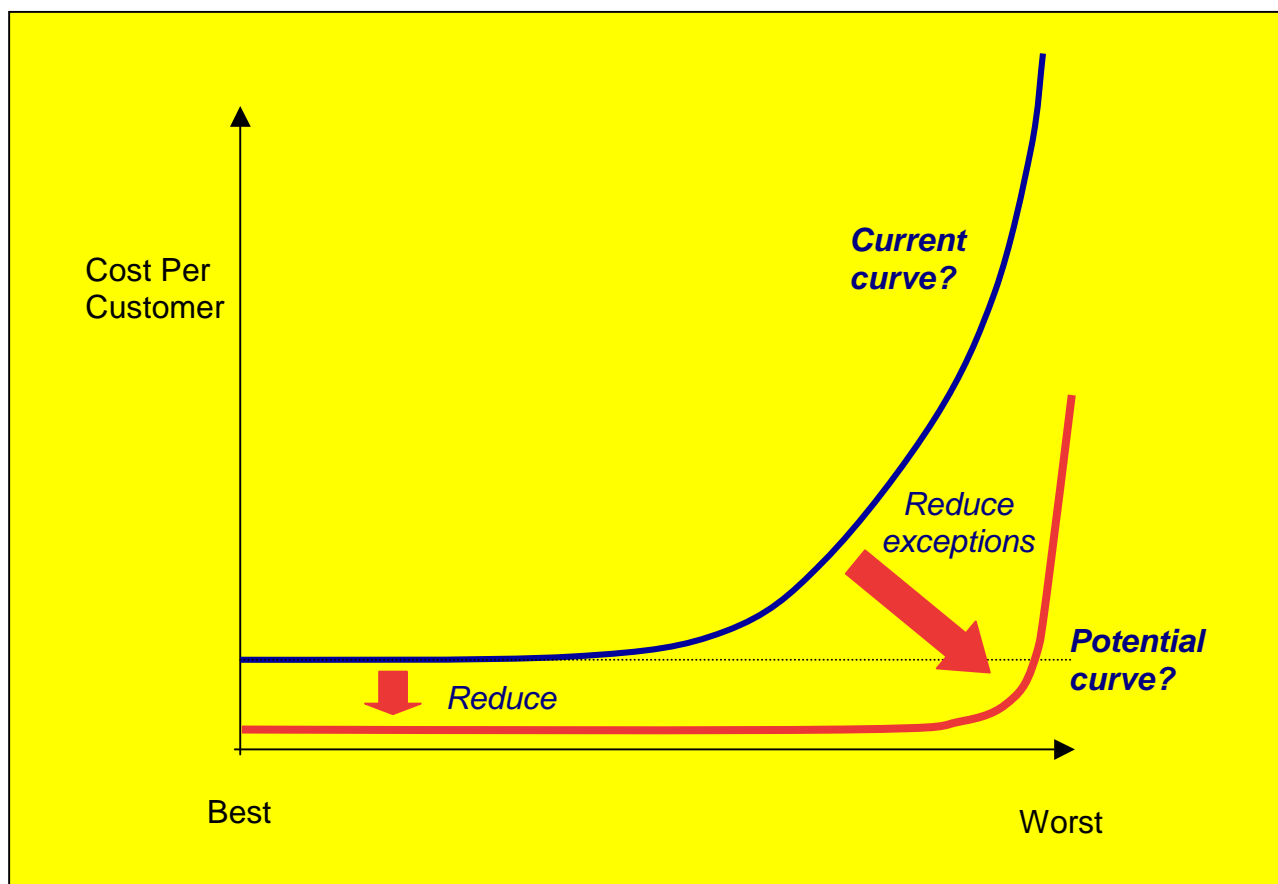


Figure 3.1 : Pressures to reduce costs of customer transfers

### *New players in the markets*

- 3.7 Any organisation entering the domestic energy market will look to differentiate itself from the incumbent suppliers, within the bounds of the regulatory obligations. It could challenge the fundamentals of the products, services and ways of interacting with customers and it may develop business models that are a substantial departure from the accepted norm.

- 3.8 New entrants would typically aim to focus their investment on those marketing, purchasing and customer service activities that deliver benefits to customers and competitive advantage to the supplier. They will seek to differentiate themselves from the incumbent competitors through their products and services, and increasingly through the way that they engage with their customers. The take-on of new customers, and the conversion of existing customers of other products, would appear to be key areas in which suppliers would want to be able to control and differentiate their propositions.
- 3.9 Many staff recruits to the current energy suppliers from other retail sectors have expressed surprise at the high level of cancelled contracts and losses during the transfer process. Many suppliers reported that only around 60% of customers that entered into contracts with them were actually switched. Whilst the use of doorstep sales approaches is partly responsible, the extended lead times, volume of communications received and number of reasons for transfers to fail may cause customers to lose interest. There are many other products where cost savings or other benefits can be gained, all of which compete for customers' attention.

### ***Customer switching***

- 3.10 Many retailers compete for customers' business for products and goods. Customers now have more opportunity to change their suppliers of many types of services, including insurance, bank accounts, mortgages, telephones, mobile phones and of course, gas and electricity.
- 3.11 Several surveys and much research has been undertaken to ascertain the factors that would encourage customers to switch supplier and understand the issues that would deter them from changing. Customers would be tempted by lower prices, better service and more suitable products and feel comfortable with brands that they trust. However, customers are often suspicious about change. This is exemplified by a recent survey<sup>2</sup>, which "found that 59% of UK adults say that 'hassle' factors and worries about direct debits not being set up properly are the main reasons which deter them from switching current accounts."

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<sup>2</sup> Current Account Switching package research undertaken by NOP on behalf of the Halifax plc.

- 3.12 The DTI has recently published a report<sup>3</sup> on an independent research study it commissioned to compare the levels of switching and customer experiences in a number of market sectors, including energy, mortgages, telecommunications, current and savings accounts and insurance. This report shows that the proportion of customers that have changed their supplier of gas or electricity is generally higher than for other sectors except insurance and the concerns and inhibitions about changing are similar across all sectors.
- 3.13 Other sectors are addressing customer concerns, either by individual suppliers unilaterally finding ways of easing the customer transition, or through collective initiatives to improve the underlying infrastructure. Typically these initiatives are focussed on decreasing the effort required by the customer, reducing the time to effect the changeover and increasing customer confidence that the transfer will be problem-free.

### ***Summary***

- 3.14 Retail markets are changing, bringing new technologies and new ways of interacting with customers. Customers and companies are challenging the ways that services are delivered in many sectors, especially where there are questionable constraints and procedures, or perceived barriers to entry. In many respects, the customer transfer processes in both gas and electricity do not match the requirements of modern, competitive retail markets.

### ***Views invited***

- 3.15 How well do the current customer transfer processes reflect the needs of a modern retail market?
- 3.16 Have other sectors addressed common issues in a way that could be utilised in the domestic energy sector?

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<sup>3</sup> "Switching Suppliers", a research study commissioned by the Consumer Affairs Directorate, November 2000. This is available from the DTI web site, <http://www.dti.gov.uk>

## 4. Principles of a customer transfer process

### *Introduction*

4.1 In chapter 2 we discussed issues that have arisen since the domestic market opened to competition and identified that the transfer processes were not designed with full knowledge of how the domestic market would operate. The transfer process suffers from a high level of exceptions, manual workarounds and data quality problems. In this section we consider what principles could be used to assess whether the transfer process was operating efficiently and effectively.

4.2 The current systems and processes satisfy basic essential requirements, namely:

- ◆ They enable customers to change their supplier.
- ◆ A definitive register is maintained of which supplier is supplying which supply point (note that this does not define a contractual position between a supplier and a customer), and:
- ◆ Both the old and the new supplier use the same CoS meter reading.

The registration systems provide the basic data that allows other industry processes to operate, in particular the charging for transportation and distribution services and the balancing and settlement of energy charges.

4.3 The principles set out in this chapter are based on the views of suppliers and the problems experienced by customers. They are also formulated on the conditions that would be most likely to support a competitive market. The key obstacles experienced in the transfer process are:

- ◆ Change of supplier meter readings.
- ◆ Managing a returners process for dealing with customers who have been erroneously transferred.
- ◆ The new supplier identifying the correct MPRN/MPAN number, where there may be problems with the customer providing this information

from their bill or with ambiguities relating to the address which may lead to an erroneous transfer of a customer.

- ◆ Access to relevant meter technical data.
- ◆ Interpreting meter technical data to be able to correctly set up billing arrangements.
- ◆ Dealing with objections and cancellations.

4.4 The length of time it takes key processes to operate or for data to be exchanged compounds all of the above issues and will frustrate customers. There is no evidence to suggest that a longer process increases the reliability of the transfer process in meeting the expectations of customers. Indeed the delays experienced by customers can lead to confusion where a second contract is signed, the customer changes their mind or even moves house. It is likely that a supplier could achieve a higher level of performance if he had access to essential data in advance of the transfer process. The new supplier should be able to determine the time they wish a transfer to take, based on the route to market they have adopted, customer requirements and the efficiencies of their own systems. They should not be dependent on others, including the old supplier and their metering agents in electricity, whose role can slow the process down. The timing of access to data raises a number of data protection issues that are reviewed in chapter 5.

4.5 It is primarily the new supplier who has the responsibility to manage the transfer process to the satisfaction of the customer and who has to resolve problems relating to data issues or delays. Therefore the systems and processes need to provide the new supplier with sufficient control over the process to manage his responsibilities.

4.6 Against this background, the following table sets out the key principles that Ofgem propose should be used to assess the effectiveness of a transfer system to support a competitive market.

<b>Principles</b>	<b>Supporting Objectives</b>
<p><b>Control</b></p> <p>A new supplier should have control over managing the transfer process.</p>	<p>Data available when needed.</p> <p>Data items to be consistent and accurate.</p>
<p><b>Timing</b></p> <p>A new supplier should be able to take over responsibility for supplying a site with the minimum of notice, potentially immediately.</p>	<p>Data available when needed.</p>
<p><b>Development</b></p> <p>Suppliers should be able to adopt new processes at their own pace. Industry wide changes to be kept to a minimum.</p> <p>Suppliers should, as far as is practical, be allowed to develop their systems and processes without being constrained by other industry parties, except where required to achieve interoperability.</p>	<p>Current interfaces to be maintained.</p> <p>Service providers to have appropriate incentives to deliver enhanced facilities.</p> <p>Industry agreements should, wherever possible, specify only data items and not the business processes.</p>
<p><b>Customers</b></p> <p>The transfer process should be invisible to customers.</p>	<p>Data available when needed.</p> <p>Data items to be consistent and accurate.</p>
<p><b>New entrants</b></p> <p>The transfer process should be as simple and accessible as possible to enable new entrants to the market to operate.</p>	<p>Industry agreements should, wherever possible, specify only data items and not the business processes.</p> <p>Data available when needed.</p> <p>Data items to be consistent and accurate.</p>
<p><b>Regulation</b></p> <p>The transfer process should require a minimum level of regulation.</p>	<p>Industry agreements should, wherever possible, specify only data items and not the business processes.</p>

- 4.7 Ofgem therefore propose that industry parties should take into account these principles when considering developments and modifications to the transfer process. Chapter 5 considers the changes that could be made.

***Summary***

- 4.8 Ofgem consider that the transfer processes should be judged against a set of key principles to establish if they are fit for purpose and to inform the direction of future developments.

***Views invited***

- 4.9 Is the set of the principles and supporting objectives identified in the table in 4.6 above correct and complete?

## 5. Potential improvements

### *Refinement, re-engineering or evolution*

- 5.1 Previous chapters have identified that there is substantial scope to improve many aspects of the current arrangements associated with the transfer of customers between suppliers. There are also clear business drivers for suppliers, agents, distributors, PGTs, and other market participants to implement process improvements in areas under their control, as well as to advocate change to the industry arrangements that would enable them to obtain further benefits. Many of these benefits would be to the direct advantage of customers.
- 5.2 The intention of this chapter is to present, in a structured way, some of the potential improvements that have been identified during the ICT project. It draws on substantial contributions from many industry participants. Many contributors had already identified the need for change, but each had their own views as to where and how benefits could be achieved. Exploration of such proposals with contributors often led to further ideas for improvements, as well as discussion of the mechanisms for agreeing and implementing solutions. Chapter 6 will discuss some of the factors that will need to be considered in instigating and making changes to achieve the benefits.
- 5.3 Firstly, we consider the broad approach that the industry could take to make improvements to the current arrangements. Three different approaches are discussed, each of which would determine the manner in which changes were considered and implemented. The industry could:
- ◆ Concentrate on **refining** current processes and associated arrangements, through specific incremental changes, amendments to contracts, improvements in data quality, tighter policing of activity and such like.
  - ◆ Undertake a collective exercise to **re-engineer** the processes required to support the transfer of domestic customers between suppliers and the associated processes related to metering services. All relevant market participants would then simultaneously adopt the changes.

- ◆ Modify the industry infrastructure and governance to provide suppliers with the ability to adopt alternative, parallel facilities and services that would allow them to achieve improvements. The minimum of simultaneous change would be imposed on suppliers, but each would have the opportunity, at a time chosen by them, to adopt a better way of handling the take-on of customers. This could be considered as **evolutionary** in approach, as the development of processes would be determined by the business needs of individual suppliers.

5.4 Whatever approach is adopted, there are a number of existing and potential aspects of the customer transfer process where improvements can be made. These are discussed in this chapter. These include:

- ◆ Clear data definitions and high data quality, especially for metering point addresses and meter technical details.
- ◆ Robust processes where co-operation between incoming and outgoing suppliers is essential, including disputed CoS reads and the return of erroneously transferred customers.
- ◆ Robust communication links between participants.
- ◆ Clearly defined obligations and responsibilities on participants.
- ◆ A clear legal framework covering the provision and use of data by market participants.

5.5 Work is already being undertaken by the industry to develop and implement changes that will deliver improvements to some of these areas. Ofgem intends to continue to provide its support to these initiatives and welcomes suggestions on how it could best support the industry assessment of the need for change, the approach to take and alternative models that could be implemented.

### ***Refining current processes***

5.6 Some suppliers argue that the current processes would be adequate if all participants performed to the standards required by the current agreements and regulatory obligations. Monitoring of the activity of suppliers, agents, PGTs and

distributors does suggest that some companies do achieve significantly better results than others. Our experience supports the view that there is considerable scope for many participants to improve their internal operations, typically through refining their management, reporting, controls, contractual arrangements and communications with other participants. However the same monitoring also suggests that there is an underlying level of exceptions and therefore costs and problems, which can be attributed to the current processes and arrangements.

- 5.7 The reliance on the actions of other industry organisations outside of their control reduces the overall performance of the industry. For example, competition in the provision of metering services provides an opportunity for a supplier to achieve better control of those aspects of its service, but the supplier relies on the robustness of processes that support change of agents and the performance of incumbents in making data available to new agents. Monitoring and policing of the performance of market participants would appear to be essential in encouraging improvements.

#### **Suggested refinements**

- 5.8 Shortcomings have been identified in specific aspects of the customer transfer processes. These could be addressed by an approach that would retain the basic framework of data flows and transactions as they are, but refine processes, data flows and working practices where appropriate. This might include providing closed loop responses to confirm that transactions have been processed; combining or splitting data flows to make them more suited to purpose; introducing or tightening targets for turnaround of inter-supplier communications; or clarifying the interpretation of data standards and working practices. Changes that have been proposed, discussed and implemented to date have essentially been refinements of the original processes. Further improvements might include:

- 5.8.1 **Tighter requirements on metering agents** to provide information more quickly in response to instructions or requests. As mentioned in chapter 2, suppliers could theoretically achieve this by amending their contracts with their appointed agents. However, the nature of the JPWA contracts and the

relationships between suppliers and the incumbent agents may make this more difficult.

- 5.8.2 Alternatively, suppliers could choose only to use agents that agreed to meet tighter service levels. They would need to ensure that the processes that support **change of agents** were robust and reliable; that the obligations on old agents to forward relevant data to new agents were strong enough; and that old agents adequately met these obligations.
- 5.8.3 Editing of **data standards** to clarify interpretations and increase consistency in key data items. Examples of such refinements include the tightening of standards for electricity meter technical details; formulation of the Standardised Address Format for metering point addresses; and the development of the Biscuit Project Data Catalogue for communications supporting supplementary processes such as agreed reads and the returners process.
- 5.8.4 Removing scope for ambiguous **interpretations of working practices** and the use of data flows. Again, some of the definitions as documented in the DTC, Codes of Practice and Working Practices have been interpreted differently. Much time has been spent in refining and amending documentation, but work is still ongoing with some processes such as WP64 for handling disputed reads. Individual industry participants should be able to develop and interpret processes where they wish to but not at the expense of interoperability.
- 5.8.5 Higher levels of **metering point address data quality** to be achieved by PGTs and distributors. Various exercises have concluded that this would provide many participants including suppliers, agents, and the PGTs and distributors themselves with significant benefits. A draft Standardised Address Format has been developed, specifically for metering point addresses and is available from the Ofgem web site. Achieving improved data quality will require work by PGTs and distributors – which some may resist due to cost and resource implications – and improvements to the processes for querying addresses.

- 5.8.6 Tighter specification of the **size, format and location of the key reference numbers** on bills produced by suppliers could help customers to find them. It may be appropriate for the MPRN/MPAN to be included on all direct correspondence from suppliers to customers. However, this would not directly help home movers.
- 5.8.7 Publication of more **technical information about the meter installed** at each site. Transco publishes the meter serial number but, at present, the core MPAN – a code number identifying the distributor and the unique metering point reference number – is the only data that is available to electricity suppliers that do not supply the site. The MPAS holds further information, some of which – profile class, meter/timeswitch code and DuoS code - is included in the full MPAN. Publication of the full MPAN on the CDs issued by distributors has been considered, but rejected because of concerns that incoming suppliers would avoid sites with difficult metering configurations and recognise sites with pre-payment meters installed. However, access to more complete technical data before or soon after registration would allow suppliers to identify potential problems and focus resources on addressing issues with those transfers that would otherwise prove difficult.
- 5.8.8 **Simplification of data flows** for domestic sites. Current systems were not designed specifically for the domestic market and some data flows contain data items that some suppliers suggest are not critical for domestic transfers but mandatory components of the data flows. Agents or suppliers may find it difficult to populate all of the data immediately, which could lead to delays in sending the critical data items. This may cause delay to the transfer process, even though the critical items are readily available. It may be useful to define slimmer data flows that contain just the essential data items. For example, electricity suppliers may be able to submit more CoS readings that they have obtained if it was not necessary to include some items on the relevant data flow. Alternatively, where data is currently sent in multiple data flows, it may be possible to devise a single combined data flow as has been suggested for meter technical details.
- 5.8.9 Implementation of **reduced lead times for the gas SPA** process. The lead times associated with other processes supported by Transco's UK Link

systems have been changed to reflect business requirements. It may be possible for Transco, shippers and suppliers to implement similar changes in the lead times, e.g. shortening the window allowed for objections to be raised, or reducing the lead time between the end of that window and the transfer date. Even if such changes did not require a major development of UK Link, suppliers and shippers use a variety of SPA systems, with differing implications for their ability to change.

- 5.8.10 Provision of the **identity of the other supplier** involved in the customer transfer, as in the current electricity processes. It is often essential when addressing problems that the new supplier and old supplier are aware of each other's identity. Many suppliers support the extension of this facility into the gas sector. However, some suppliers may consider that this would give their competitors commercially confidential data, especially if it reveals the nature of the contractual arrangements between a supplier and its agents.
- 5.8.11 Allowing suppliers to **withdraw electricity site registrations**. At present, an incoming electricity supplier is unable to withdraw a transfer logged with the MPAS if it recognises an error or the customer changes their mind. Gas suppliers can withdraw from transfers during the objection period, but electricity suppliers need to ask the incumbent supplier to raise a "co-operative objection" on their behalf. It should be possible to introduce this into electricity by allowing the new supplier to object to its own transfer. However, all suppliers would need to change their systems to allow them to handle cancelled registrations and there would also be implications if the incoming supplier had already appointed agents and for the old supplier if they had de-appointed their agents.
- 5.8.12 **Removal of the ability for an incumbent supplier to withdraw objections** that it has raised. This facility increases the complexity of the process and timescales, but is only used very occasionally, and may lead to confusion when objections are withdrawn. Combined with a reduction in the window allowed for the incumbent supplier to raise an objection, this could allow incoming suppliers to reduce the transfer lead times with more confidence, particularly in the electricity sector. Raising an objection would put an immediate halt on the transfer.

- 5.8.13 **Removal of the ability for an incumbent supplier to block a transfer** altogether. This has been much discussed by the industry, and to date resisted, but would substantially reduce the complexity of both gas and electricity transfer processes.
- 5.8.14 Earlier provision of **information to support validation of CoS meter reads**, such as the date and value of the last actual reading, the number of dials expected and the annualised consumption. Such refinements have been proposed since before the final phase of the introduction of domestic gas competition, but have yet to be implemented.
- 5.8.15 Introduce a mechanism for the **outgoing supplier to provide its own estimate of the CoS meter read** based on its previous billing history to the new supplier. The quality of the estimate would depend on the meter reading history held by the incumbent, but could be better than that held by the DC or Transco, especially if actual or customer meter reads had been obtained but not submitted to the DC or Transco for some period. Various mechanisms can be envisaged for communicating such an estimate to the new supplier, including data flows directly between suppliers, passed through an existing intermediary such as Transco, or via a separate service provider as intended with the SAR Avoidance Process.
- 5.8.16 **Require all transfers to be based on an actual or customer-own CoS reading.** In this scenario, a transfer would not complete until an acceptable CoS read was received, or would fail if the CoS read was not received with the customer reverting to the original supplier. Electricity suppliers could achieve a similar objective by initiating next-day transfers as soon as a CoS read was obtained, provided they had an appropriate interface with their DC.
- 5.8.17 **Introduce or increase the charge for provision of an estimate**, to provide a larger financial incentive to obtain actual or customer-own readings. The introduction of charges led to a substantial increase in performance in the gas sector.
- 5.8.18 **Align the meter reading windows** to allow suppliers to provide customers with a consistent experience when changing electricity and gas supplier,

reduce suppliers' meter reading costs and encourage them to obtain an actual or customer read. Currently gas and electricity suppliers are subject to differing time constraints for obtaining gas and CoS meter reads and sending them through to Transco or the DC.

5.8.19 **Formalise data flows for disputed reads and agreed reads** as part of the mandatory, mainstream transfer processes, building the functionality into the relevant MPAS and SPA systems.

5.8.20 **Formalise data flows for the return of erroneously transferred customers** as part of the mandatory, mainstream transfer processes, building the functionality into the relevant MPAS and SPA systems.

5.8.21 **Remove the mandatory requirement** for some transactions to be performed using the standard data flows. For example, a number of electricity data flows cover how agents communicate with suppliers and their use is either mandated or made de facto by agent accreditation rules. There may be better ways for suppliers and their agents to interact whilst preserving the integrity of the settlement processes, but the current industry agreements are considered to deter such innovations from being adopted.

5.9 Several of the refinements discussed above are already being debated within the respective industry forums. Various other refinements have either been proposed formally or suggested by some market participants since the transfer processes became operational several years ago.

### **Implementing refinements**

5.10 The above refinements could bring improvements to the robustness, efficiency and lead times of the customer transfer processes. However, many of them would require significant changes to be made concurrently by several participants, and would typically involve:

5.10.1 **Simultaneous implementation** of system and process changes by all relevant parties, tied to new versions or updates of the DTC or UK Link.

5.10.2 **Higher obligations on PGTs and distributors** to maintain unique, standard, current metering point address/location data and to provide satisfactory

services to other market participants and customers. Changes to licences, Network Codes or the MRA may be needed to implement these obligations.

5.10.3 **Higher obligations on all suppliers** and, through them, their agents, to perform mandatory processes to a revised standard. Again, changes to licences, Network Codes and the MRA could be needed to implement these obligations.

5.10.4 **Amendments to contracts** with agents to allow suppliers to enforce behaviour that allowed them to meet their higher obligations or increase their operational effectiveness.

5.10.5 **A review of Agent Accreditation rules defined by settlement bodies** and assessment procedures to change the focus onto the quality of the inputs into settlements rather than the process used.

5.10.6 **Rigorous tracking by suppliers of the performance** of other participants on whom they rely for data and actions, to ensure that issues and delays are identified early and escalated as appropriate.

5.10.7 **More monitoring and policing** of the behaviour and performance of various participants. Ofgem has historically undertaken monitoring of performance related to customer transfers, but is not the only candidate to carry out this activity. Ofgem is likely to decrease its monitoring, but respond to complaints brought to it by participants where there was evidence that other parties were not providing timely or accurate data, or participants were not adhering to mandatory processes or working practices.

5.11 The above changes would not address issues of confidentiality associated with the current processes. Particularly in the electricity sector, the combination of data being forwarded by incumbent agents to new agents and the release of supplier identities provides much information on the market activity and the contractual relationships of competitors. Suppliers may not consider disclosure of this information to be very important today, but the competitive environment will change, and some participants or prospective new entrants may take a different view about what is an intrinsic aspect of the current customer transfer processes.

- 5.12 The refinements discussed would provide only limited scope for suppliers and agents to differentiate their services, because they continue the use of common processes and mechanisms by all participants, and largely require collective, simultaneous change to new versions of these common processes. In itself, the requirement for collective change has tended to prolong the lead times for defining and implementing such changes.
- 5.13 Refinement of current processes is unlikely to achieve alignment between gas and electricity processes. There may for example be benefits from adoption of common standardised formats for metering point addresses, and movement to use of the same windows for raising objections, taking meter readings and submitting data, but there are still some fundamental differences in principles between the two sectors such as the minimum required transfer lead times.

***Re-engineer the processes***

- 5.14 The above section suggests that a concerted effort to refine the current processes would require all relevant participants to implement a significant number of substantial changes to their systems and operations, and maybe their licences and industry agreements. The current mechanisms for managing change would probably require that changes were introduced simultaneously, e.g. with major releases of the DTC or UK Link.
- 5.15 If substantial changes will be needed to refine the intrinsic shortcomings of the current processes, it may be more effective to take the opportunity to re-engineer the customer transfer processes. This would give the industry the opportunity to start from first principles, building on the experience and lessons learnt from the introduction of competition into the domestic gas and electricity markets.
- 5.16 This approach would represent a programme of major change, with the associated challenges of drawing together many diverse perspectives and positions. As the experience of the introduction of Transco's Network Code, the 1998 Programme, NGTA and NETA has demonstrated, it is difficult to get industry-wide agreement. Even if the scope of the new mandatory processes was kept to a minimum, participants would in addition need to define, develop and implement their own processes to replace the current transactions that fell outside the scope of the new mandatory processes. It would be quicker for

participants to define, develop and implement internal changes where there is minimal need for collective industry agreement, but such changes would need to be implemented by a deadline set for the whole industry.

- 5.17 Previous re-engineering programmes had a lead party to formulate the design proposals and provide administrative support: Transco led development of its Network Code, and the Central Integration and Design Authority (CIDA) acted in a similar capacity in developing the baseline for the electricity infrastructure. Identification of the organisation that would take on that role in a re-engineering of MPAS and SPA processes may be complicated, especially as this would ideally cover both gas and electricity sectors in order to achieve alignment where appropriate.
- 5.18 It should be noted that the impending separation of Transco's metering businesses from its transportation business could involve substantial change or development of new SPA systems and interfaces. This could present an opportunity to re-engineer the gas SPA processes and hence deliver improvements to the customer transfer arrangements.

### ***Parallel, evolutionary developments***

- 5.19 There are many aspects of the current arrangements that are valuable and they do provide a platform that is used by all market participants to handle the majority of customer transfers successfully.
- 5.20 Several of the ideas explored with various contributors to the ICT project were based on the development of additional or enhanced facilities –which would sit alongside the current processes and interfaces and which would provide suppliers with the ability to improve their own internal processes and operations. Because these facilities would complement and not replace what is there today, suppliers could also choose to continue using the original data flows, processes, timings and arrangements until they were confident that there was a business case to invest in changes.
- 5.21 The new facilities could support access to data by the incoming supplier before it commits to a specific date on which it will take over the supply to the customer. This would appear to address many of the issues that cause transfers

to be problematic, giving the incoming supplier an opportunity to resolve issues early in the process.

### Access to data

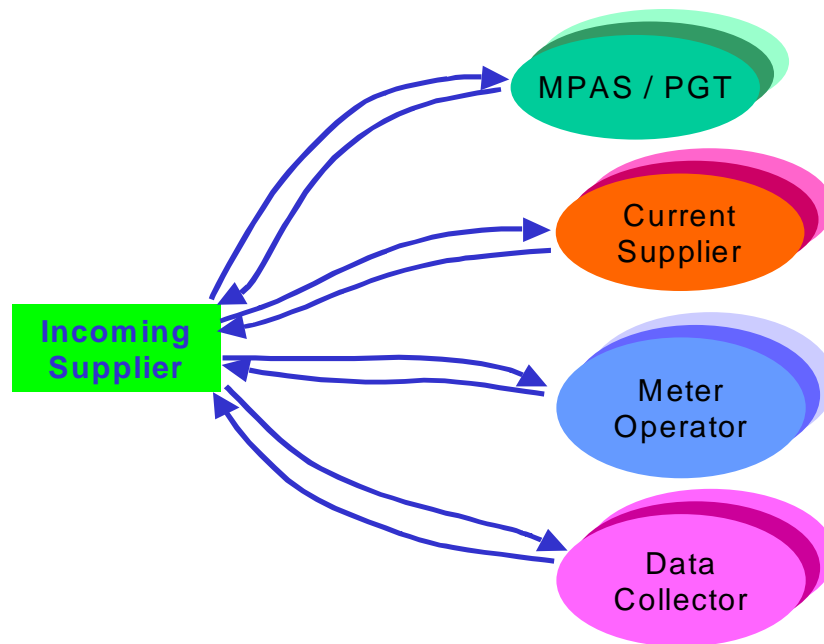
5.22 The key industry data required to support transfers could be made available to incoming suppliers through a variety of mechanisms, including:

- ◆ **Data flows requesting the data from current holders**, as described in Figure 5.1. In electricity, this could entitle the incoming supplier, as well as the incumbent, to request information from the distributor, MPAS, and the incumbent supplier's agents. This approach would not preserve confidentiality, would alert the incumbents to the potential loss of a customer, and would rely on the timeliness of responses from the incumbents for it to be effective.
- ◆ **Direct access to databases** held by suppliers and their agents, as described in Figure 5.2. This approach would overcome some of the timing issues by facilitating "real time" access to the information. This approach would rely on the provision of access by incumbents and alert them to potential losses.
- ◆ An intermediary **industry data manager (IDM)** could provide access to information held centrally, as described in Figure 5.3. This would require incumbent suppliers and agents to submit changes and updates to the IDM, to ensure that the data held was accurate. Alternatively, the IDM could act as an intermediary collation service, collecting data from the relevant holders when it received a request from an incoming supplier. Transco effectively acts as an IDM for the gas sector and has developed facilities, such as its web site, which allow incumbent suppliers to view much of the information held by Transco for their sites.
- ◆ A more sophisticated **hub & channels** version of the IDM would allow for competing service providers. This approach, described in Figure 5.4, mixes an IDM providing core data administration and information service, with multiple "channels" developed at a service providers risk or let via franchises. A model for such an approach is that being taken to

implement the National Land and Property Gazetteer (NLPG), the National Land Information Service (NLIS) and the supported channels, which is described in Figure 5.5

- 5.23 Each of these approaches would facilitate the flagging of discrepancies in the data held against a site, to allow them to be checked and corrected. Discrepancies could be identified either by the new supplier when they receive the data, or by the IDM or channel service providers when data updates are submitted, well before an incoming supplier requests the data.

## Access to data - Data Flows



Elements of the current infrastructures could be used as the basis for mechanisms to obtain data from the industry participants that hold that data. This could include the DTN/IXN for data file exchange and data flows comprising existing data items.

For agents to provide this information to the new supplier, it may be possible to use existing, or refined versions of data flows such as:

- D0260, D0149, D0150, D0019 and D0012 in the electricity sector.
- Enquiry/nomination interface files in the gas sector.

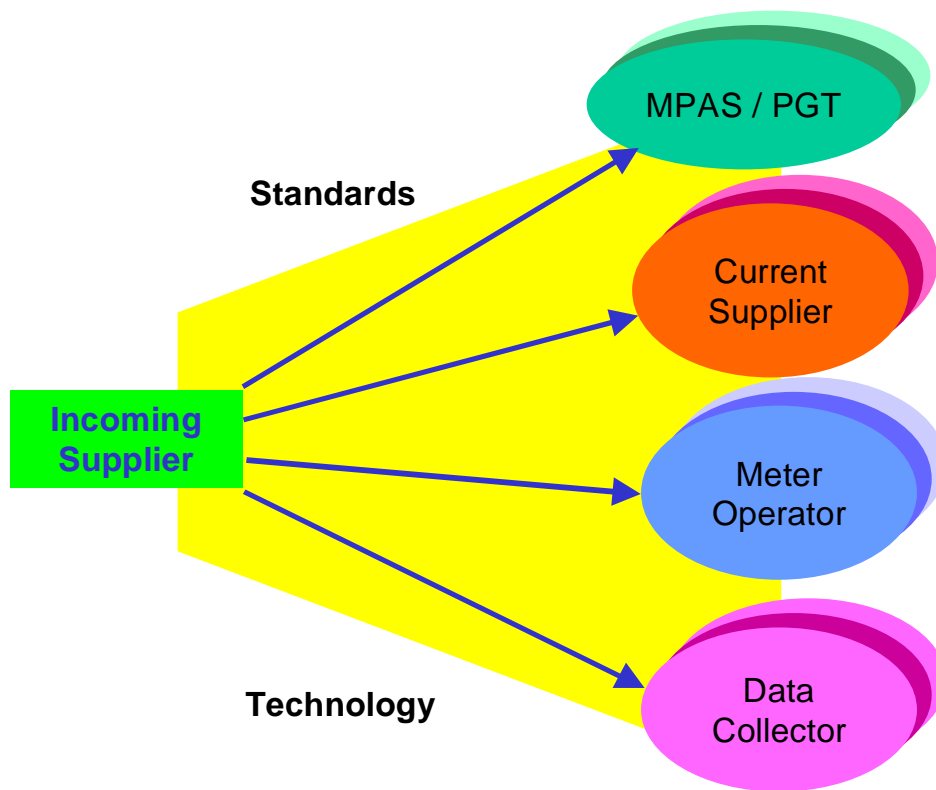
Where the data was held by agents or the current supplier, the incoming supplier would first need to obtain their identity from the MPAS or PGT and then contact them directly. The disclosure of information about the contractual relationships of other suppliers may be unsatisfactory in a competitive market.

The enquiry by the incoming supplier would make the current supplier and agents aware that they were about to lose the customer. This would provide them with an opportunity to contact and hence retain the customer.

The incoming supplier would be dependent on timely return of accurate data from the PGT or MPAS, current supplier and agents to make this mechanism effective.

Figure 5.1: Access to data - Data Flows

**Access to data - Direct Access**



To provide for more immediate access to the data about a property, the PGT, MPAS and current suppliers could be required to provide access by authorised participants directly into their systems or those of their agents. For this model to work effectively, it would probably be necessary to define standard interfaces and communication mechanisms. Access controls may also be required to limit the provision of data to authorised participants.

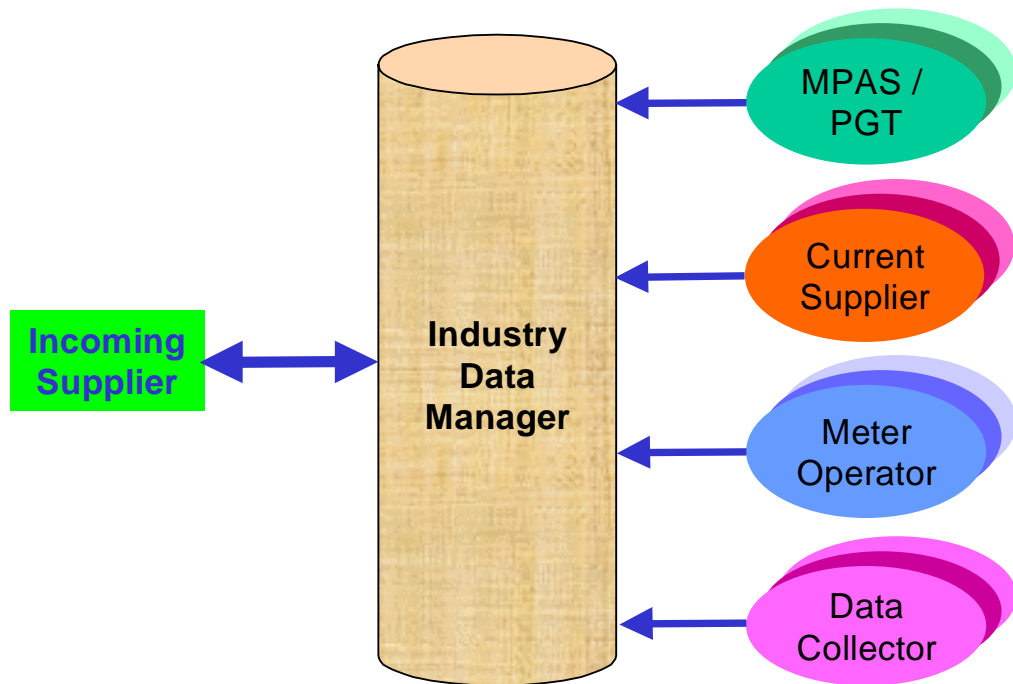
Transco has already developed facilities that allow customers and suppliers to view the information held on sites on its network. A wide range of web sites on the Internet provide similar controlled access to information. However, programmatic access would be needed as well as browser access.

The incoming supplier would still need to obtain the identity of current suppliers from the MPAS or PGT to know where to obtain the relevant data.

Enquiries by incoming suppliers could be tracked by the current supplier and agents to provide them with opportunities to contact and hence retain the relevant customers.

**Figure 5.2: Access to data - Direct Access**

### Access to data - Industry Data Manager



An intermediary service, the Industry Data Manager (IDM) in the above diagram, could be established to act as the source of data on sites that the incoming supplier intended to transfer. The IDM would hold data provided to it by current suppliers and their agents, or alternatively collate data from the relevant holders when it received a request. There could be a single IDM covering all gas and electricity metering points in Great Britain, or multiple IDMs with PGTs and MPASs providing or procuring the service independently for their networks.

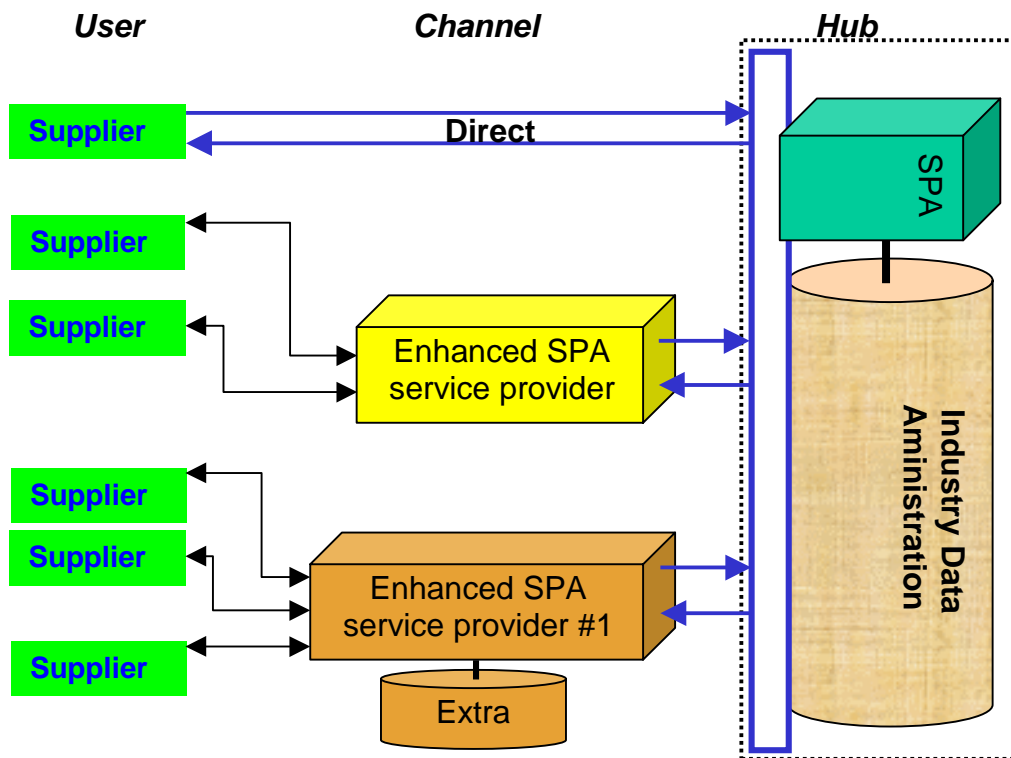
Obligations on suppliers, PGTs and MPASs would require them to notify the IDM of updates and corrections to the data it held, which could be the minimum required to support interoperability in the sector. The IDM might provide a variety of mechanisms for submission of updates as well as for suppliers to access the data. It would also be able to highlight discrepancies in the data that was submitted, thereby allowing these discrepancies to be resolved by the incumbent supplier before any other supplier came to transfer the site.

The incoming supplier would not need to know the identity of current suppliers or their agents to obtain data on sites from the IDM. Enquiries by incoming suppliers could be tracked to establish whether individual suppliers were misusing the facility. For example, the IDM would be able to monitor the proportion of enquiries that suppliers did not then register.

The IDM could also operate the SPA and MRA processes and provide help lines and information web sites for suppliers and customers.

Figure 5.3: Access to data - Industry Data Manager

## Access to data - Hubs & Channels



A refinement of the Industry Data Manager (IDM) model would limit the level of core services provided by the 'Hub' IDM, but allow 'Channel' service providers to develop and implement more sophisticated facilities that they would provide to suppliers and agents on a commercial basis.

There would still be obligations on suppliers, PGTs and MPASs to notify the Hub IDM of updates and corrections to the data it held, but the Channel facilities would provide choice in the mechanism used to submit updates as well as for suppliers to access the data. The Hub IDM would highlight discrepancies in the data that it received, but the Channel facilities could validate data before submission.

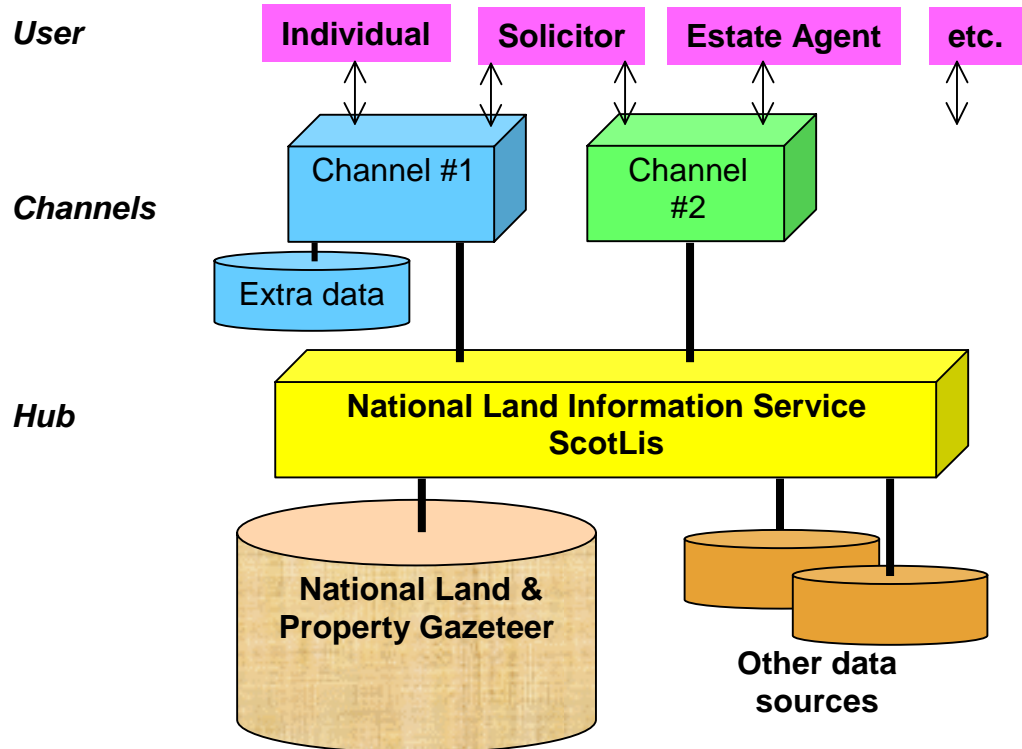
The Hub IDM would be responsible for administration of the core SPA processes and registers and it might be appropriate for it to also provide help lines and information web sites for suppliers and customers.

As with the IDM model, there may be a single national Hub IDM, or multiple versions for different networks, ideally all providing a standard Hub Interface.

This model could deliver enhanced facilities that better meet the needs of suppliers and agents, because Channel service providers would be competing for their business, whilst maintaining controls through the Hub IDMs.

Figure 5.4: Access to data - Hubs & Channels

## The NLPG, NLIS & ScotLis



The National Land Information Service (NLIS) and its Scottish equivalent ScotLis is an initiative to provide improved access to land and property related information, electronically to a wide audience. The initial targets are the delivery of integrated land and property information search facilities to support the conveyancing process and provision of access to statutory registers and associated information.

The core of NLIS/ScotLis is the National Land and Property Gazetteer, which will provide unambiguous identification of land and property units. British Standard BS7666 has been created covering Street Gazetteers, Land and Property Gazetteers, Addresses and Rights of Way. Local Authorities will play a key role in the creation and maintenance of the NLPG, but it will provide a reference data set that will support many functions and users, including utility companies.

NLIS/ScotLis will retrieve information from the NLPG and a number of other sources. These Hub services will be operated by a selected service provider and will provide a mechanism for accessing the relevant data. Four 'Channel' franchises have been awarded to consortia, which will develop and operate services that they will market to their targeted users.

More information on NLIS/ScotLis and the NLPG is available from a variety of web sites, including [www.nlpg.org.uk](http://www.nlpg.org.uk) and [www.nlis.org.uk](http://www.nlis.org.uk).

Figure 5.5: The NLPG, NLIS & ScotLis

### Benefits of early visibility of data

- 5.24 Sight of the data would allow an incoming supplier to recognise where there are issues to be resolved in taking on a customer, and resolve them or instigate appropriate actions, before committing to a date on which they will take over responsibility for a site.
- 5.25 For example the incoming supplier might identify:
- ◆ Transfers where they need to undertake a change of meter ownership as well as change of supplier.
  - ◆ Complex meter configurations that cannot be supported by their billing systems.
  - ◆ Pre-payment meter customers, where additional activities need to be undertaken to ensure that the customer receives a new pre-payment card, or that the meter is reset on the date of transfer of responsibility.
  - ◆ Sites where a gas meter inspection was due shortly, giving the incoming supplier the opportunity to inspect the meter as part of the transfer, whilst obtaining an actual CoS read.
  - ◆ Customers that had a long history of being billed to estimates by their incumbent supplier, with a long gap since last actual meter read was obtained. This might suggest that there may be issues with estimated CoS readings and allow the incoming supplier to ensure that an actual read is taken, or at least ensure that the customer provides a reading.
  - ◆ Supply points that are recorded by the PGT or distributor as isolated, disconnected, de-energised, or without meter, even though the customer is evidently taking gas or electricity.
  - ◆ Mismatches between the technical data and the meter reading data, e.g. conflicts between register descriptions and readings, that have not been picked up by the incumbent supplier.
  - ◆ Other data issues that could otherwise lead to delays or problems in taking on the customer.

- 5.26 The above proposals are based on the assumption that it is possible to make data available to the incoming supplier before or shortly after it commits to a date for the transfer of responsibility. The licence conditions of suppliers, PGTs and distributors do not preclude this, but the MRA and Transco's Network Code do not enable information to be provided at this time.
- 5.27 There would appear to be significant benefits in establishing a clear legal framework that requires defined data to be provided and used only for prescribed purposes. Such a framework would place obligations on:
- ◆ Current suppliers, to provide certain core information to specified industry participants in defined circumstances. This could cover immediate submission of data updates to an IDM, or the provision of data on request to incoming suppliers.
  - ◆ Holders of the information, such as an IDM, to ensure that they protect and only release data to authorised organisations or customers.
  - ◆ Incoming suppliers, to obtain the data in prescribed circumstances and use it for specified purposes. For example, the incoming supplier may be entitled to access data on specific sites when they have the consent of the customer to view information that related to the site to be supplied.

Such a clear legal framework would address the concerns that some participants may have about data protection issues.

#### **Immediate transfers**

- 5.28 If no potential issues were identified, the incoming supplier should be confident that it would be able to service that customer immediately. There would therefore be little need for any delay before the registration took effect, so the supplier could reduce their notice of registration substantially, even taking over responsibility immediately if the processes allowed. This would allow the incoming supplier to submit a CoS meter reading at the point of registration of a site.
- 5.29 It would also be possible to enhance the way in which an incoming supplier could complete the transfer of a site, for example using a single transaction

containing the following information, which currently is sent using multiple data flows:

- ◆ CoS meter reading.
- ◆ Agents to be used by the incoming supplier.
- ◆ Details of meter ownership.

The enhanced-SPA service provider could use this transaction to generate the necessary data flows that may be needed, for example, to record registrations, notify the outgoing supplier of the loss of its customer, instruct the old agents to pass on information and submit the CoS read to the appropriate participants.

5.30 If the outgoing supplier continues to use the current interfaces and processes, the existing data flows to notify of withdrawal and provide the CoS read could be generated. However, there may also be a demand for enhanced facilities to handle customer losses as well.

5.31 The use of short lead times between registration and transfer of responsibility for supply does raise issues with the reversal of transfers in cases where the outgoing supplier objects to the transfer. The electricity process already supports this aspect, as it is allowable for suppliers to submit a registration for transfer the next day, but still allows a five-day window for objections to be raised.

5.32 Changes in gas SPA systems would be needed to enable users of such enhanced facilities to achieve substantial benefits, because the current processes require that the incoming supplier give a minimum of 15 working days notice of a transfer. Changes needed to facilitate shorter transfer periods may include the following:

- ◆ Reduce the transfer lead times, ideally to accept immediate transfer of responsibility, or next day transfers as currently allowed in the electricity sector.
- ◆ Handle reversals of transfers in cases where the incumbent supplier raised an objection.

- ◆ Accept meter reads at the same time as registering the transfer of responsibility.
- ◆ Adapt the mechanism and timing by which data is aggregated for use in gas balancing systems.

### ***Providing enhanced services***

5.33 The move to an infrastructure that allows market participants to choose between use of basic or enhanced facilities raises a number of questions that do not apply when all participants use the same, common interfaces and facilities. These questions include:

- ◆ Who should have the obligation or right to develop and deliver the type of enhanced facilities discussed in this chapter?
- ◆ Who should pay for the development and operation of the current and enhanced facilities?
- ◆ Should there be different terms for early as opposed to late adopters?
- ◆ Should there be a "sunset clause" for the current processes and what happens as the number of users reduces but the support costs remain?

The way in which enhanced facilities could be provided or procured has a bearing on the resolution of these questions. There are at least four main models for the implementation of such services. We describe these, and one of the hybrid models that takes elements from two of the main models.

### **PGTs and distribution companies**

5.34 The proposed new licences<sup>4</sup> maintain the obligations on PGTs and electricity distribution companies to provide or procure SPA or MPAS services that

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<sup>4</sup> In October 2000, Ofgem published its final proposals for amendments to gas and electricity licences. The Utilities Act, which received Royal Assent on 28 July 2000 has a significant impact on both gas and electricity licences. The Act will require distributors of electricity to be authorised by licence or exemption. There will therefore be a new licence to distribute electricity. The public electricity supply (PES) and second tier electricity supply licence will be brought together into a single type of supply licence. There will be consequential amendments to both electricity and gas licences.

facilitate competition. The provision of enhanced services would be a natural extension of the SPA or MPAS services covered by this obligation.

- 5.35 Transco operates the UK Link system that holds all the data that is made available to suppliers during the transfer process. Transco has also provided current suppliers and customers with access to much of the information it holds by developing a variety of web sites. Transco has experienced problems with the robustness of these web sites, but they have demonstrated the viability of the technological approach. The data available includes details of meter assets, meter reads and annualised consumption, as well as the address/location of a metering point.
- 5.36 Separation of Transco's metering and meter reading businesses from its transportation business will have implications for the data management activities. Transco's PGT business, which provides the SPA service and holds the industry dataset, will no longer be responsible for the activities that maintain the metering data. Instead the SPA service will just keep a record of what it receives and potentially flag discrepancies to the providers of that metering data.
- 5.37 The systems established by electricity distribution companies to support MPAS do not hold the same level of data, although many distribution companies do receive and hold metering data that is sent to them by suppliers and agents.
- 5.38 There are strong arguments that PGTs and distributors need to do more to achieve better quality address data for metering points connected to their networks. As discussed in chapter 2, they are the natural participants on whom to retain obligations to keep address data accurate, unique and current, as they are responsible for recording all connections and disconnections to their respective networks.
- 5.39 PGTs and distributors would not necessarily have to undertake the MPAS / SPA activity themselves. It is sometimes apparent that there is not senior management consensus on the importance of the MPAS / SPA role, which has an impact on the resources applied. There are service providers who have the skills and competencies to perform these activities and who have experience in performing the component activities such as managing large databases, providing sophisticated search facilities and interfaces and running call centres.

There would also appear to be scope for significant economies of scale if a service provider were to take on the activity for one or more PGTs or distributors. These cost savings could offset, at least partly, the cost of developing enhanced services that would allow suppliers and agents to achieve substantial improvements in the effectiveness of their operations. In such a situation the PGT or distribution company would still be required to operate within the scope of their licence conditions and this would include a responsibility for the actions of third party service providers procured to discharge their obligations.

- 5.40 PGTs and distributors would also achieve cost savings by doing things more efficiently. Examples have been cited by one distribution company of the benefits it has obtained through better handling of address data, and the introduction of better support facilities for suppliers has delivered benefits to Transco. The costs of running and maintaining the current systems – the complex and expensive systems at Transco and 14 versions of systems with very similar functions in the MPASs – are not clearly and separately visible to Ofgem or the industry, but there would appear to be scope for significant reductions.
- 5.41 Even with the benefits that have been identified, there may not be a natural incentive for the PGT or distributor to ensure that their SPA or MPAS service performs well, or that there is innovation in how the service develops to meet the need of the other users. Chapter 2 discusses some of the areas where suppliers are frustrated by the current performance in delivery of SPA and MPAS services and problems in persuading PGTs and distributors to accept any changes that involve costs to them.
- 5.42 The price controls on Transco and distributors create the financial incentives for investment and management of such services. It may be possible to formally link the delivery of key outputs with price controls or licence provisions. This issue is being consulted on by Ofgem through the Standards of Service Consultation and IIP Project Consultation.

## **Suppliers**

- 5.43 Suppliers have much to gain from an enhanced service, because it would allow them to re-engineer their own processes to improve and differentiate the service they provide to customers and reduce costs, complaints and problems.
- 5.44 In recognition of the benefits, suppliers could make available to other parties the data that they hold on customers and supply points. This could be achieved by providing a facility for authorised suppliers and agents to access their databases directly. Alternatively, they could establish an intermediary service, such as an IDM, that could provide a single retrieval point, and hence preserve confidentiality. The SAR Avoidance Process is one example of where suppliers are exploring this type of solution already.
- 5.45 Old suppliers would benefit from reductions in the proportion of customer losses that incur problems. However, there is not a natural incentive for them to make it easy for their competitors to take away their customers quickly and provide a good service. Customers that return to their previous suppliers often report that it was due to problems they experienced with their original transfer, even if the supplier they switched to was not responsible for the problems.
- 5.46 It may be necessary to amend licences to place mandatory obligations on suppliers to submit or allow access to accurate data on a timely basis and to ensure that PGTs and distributors collaborate as required.
- 5.47 There would probably also need to be a policing mechanism, to handle situations where a supplier did not make data available in a timely or effective manner, or where the data provided was shown to be incorrect.

## **Collective procurement**

- 5.48 There are several examples in the electricity industry of participants collectively procuring a service, including MRASCo, the DTN, the Pool, and Elexon. The gas industry also has Claims Validation Agents and the OCM, although these are not directly involved with customer transfers. Typically, such collective procurement involves establishing a limited company with all or some of the market participants as the shareholders. The same approach could be adopted

to provide or procure IDM or enhanced SPA services on behalf of the gas or electricity market participants.

- 5.49 The constitutional arrangements of the governing organisation would be required to ensure that:
- ◆ All market participants had the necessary influence and input to change control mechanisms.
  - ◆ New entrants could play a part, either before or after they had entered the market.
  - ◆ Arrangements for attribution of costs and charging for the services were equitable and non-discriminatory.
  - ◆ Ofgem maintains the ability to regulate effectively when required.
- 5.50 To support this approach, there may be a need to introduce licence obligations on market participants to require them to procure the services and to ensure that there are the necessary controls on performance, covering aspects such as confidentiality, data protection, provision of information to Ofgem/energywatch and the provision of services to all that require and are entitled to them.

#### **Service Providers**

- 5.51 Several organisations have indicated that they are interested in providing IDM/SPA/MPAS services to the gas and electricity industries and possibly wider. Some have even considered making investments at their own risk on the basis that their returns would come from charges for provision of their services to suppliers and that the range of services they offered could be expanded in the future.
- 5.52 For any such initiative to be viable, the service provider would need to be able to obtain access to data held by incumbent suppliers and their agents, as well as the PGTs and distributors.

5.53 This data could be obtained by:

- ◆ Service providers purchasing this information on a commercial basis from each source organisation.
- ◆ Requiring all relevant market participants, e.g. by their licences, to provide specified information to such service providers.
- ◆ Service providers acting as agents of licence holders and therefore assuming their rights of access to data.

5.54 Again, there may be a need to achieve some form of control over the behaviour of the service providers, especially their treatment of personal and commercially confidential data. It may also be necessary to accommodate several service providers, each requiring access to essentially the same data.

### **Hybrid Arrangements**

5.55 The implementation of enhanced facilities could also be delivered by a combination of the models outlined above. Such a hybrid approach may address some of the shortcomings of each of the four main models, achieving a balance between:

- ◆ Retaining statutory obligations that are required to ensure that the infrastructure works, with the ability to monitor and police behaviour of market participants.
- ◆ Removing opportunities for there to be barriers to entry or distortion of costs and allow the ability to differentiate in the intrinsic core activities where this does not impact on interoperability.
- ◆ Incentives on service providers to develop innovative facilities that reflect the needs of all the users of those services.

5.56 The model set out in Figure 5.4 offers some ability to achieve this balance, through splitting the responsibility for provision of the obligatory and the competitive elements. Responsibility for receiving, holding and making available the data remains with the PGT and distributors, thereby allowing them to monitor and report on the behaviour of individual service providers and

market participants that they support. Competing service providers could then develop and charge for their enhanced facilities on a commercial basis.

5.57 There would inevitably be issues of ownership and access to data. There would also be a need for contractual terms to prevent misuse by service providers and assign responsibilities for monitoring, policing of behaviour, flagging discrepancies and imposing penalty charges.

5.58 There would presumably be a requirement for PGT and distributors to be non-discriminatory in the provision of interfaces and support to the various IDM/SPA/MPAS service providers, especially if the PGT/distributors chose to compete in the provision of enhanced services as well.

5.59 Examples of this approach in other areas are:

- ◆ Implementation of the NLPG/NLIS/Channels, as described in Figure 5.5.
- ◆ Airline ticket reservations, where service providers such as Galileo, Sabre and Amadeus facilitate access to the flight/seat schedules of the airlines.
- ◆ Share dealing, where multiple share dealing service providers handle customer transactions, a central trading system coordinates the transactions and then notifies changes in ownership to the registrars for each company.

5.60 An advantage of this hybrid approach to development of enhanced facilities for handling customer transfers is that it minimises the level of innovation and investment that would be required from the regulated and, in many cases, price-controlled PGT or distribution businesses. It focuses them on the provision of basic data holding, access and monitoring services, which could be more readily defined than a requirement to innovate and accommodate the diverse requirements of many different industry participants.

### ***Summary***

- 5.61 There are several alternatives open to the gas and electricity sectors to improve the customer transfer process.
- 5.62 It is unlikely that the industry would contemplate another exercise of collective re-engineering of the infrastructure and processes that support customer transfers in both gas and electricity industries. However, a rewrite of Transco's SPA may be needed because of separation of its metering businesses and systems. This would presumably have an impact on the SPA services operated by other PGTs, as shippers and suppliers have pressed for a consistent interface for gas SPA.
- 5.63 Several activities are already underway focussed on key areas for improvement of the current processes. It appears feasible that enhanced facilities could complement or sit alongside the current processes, allowing suppliers to adopt them in their own time. The combination of the refinement of current arrangements with the adoption of facilities to allow evolutionary, asynchronous implementation of changes by individual suppliers, agents and service providers presents an attractive scenario for development of this aspect of the industry infrastructure.

### ***Views invited***

- 5.64 This chapter has outlined three basic approaches that the industries could take to achieve improvements, identified a number of refinements that could be made, and presented several models that could facilitate the evolutionary, asynchronous development of processes. Each of these options has advantages and shortcomings.
- 5.65 Ofgem invites responses on the feasibility of the various approaches, refinements and models, as well as the implementation issues that would be faced. We would also welcome contributions on other models and refinements that could be considered, and examples of solutions that other sectors have adopted. Responses to a number of specific questions are also invited.
- 5.66 Should data be available to new suppliers before they have committed to take on responsibility for a site?

- ◆ What data should be available?
  - ◆ At what stage of the contracting and acquisition process?  
(e.g. before contact with the customer, once the supplier has gained customer consent to see the data, once the customer has entered into a contract, after the relevant cooling-off or audit periods etc.)
- 5.67 How important is it to maintain confidentiality of the following:
- ◆ Premise-related details, e.g. location, meter technical details?
  - ◆ Customer-related details, e.g. consumption, payment method, outstanding debt?
  - ◆ Identity of the old or new suppliers and their related agents?
- 5.68 How important is it to identify and resolve data discrepancies on an ongoing basis, before a new supplier attempts to take over responsibility for supplying a site?
- 5.69 How much data on meters and meter read history should be passed on to the new supplier, and at what stage in the process?
- 5.70 Should there be a single, national "Interoperability Agreement":
- ◆ Covering all PGTs, and separately continuing to cover all electricity distribution companies?
  - ◆ Combined to cover both gas and electricity with common, aligned arrangements where appropriate?
- 5.71 Should intermediaries (e.g. an Industry Data Manager or SPA MPAS Service provider) be responsible for:
- ◆ Holding data centrally for access by permitted organisations?
  - ◆ Collecting and collating data from incumbent suppliers and agents on behalf of new suppliers?
  - ◆ Provision of SPA services for industry participants?

- ◆ Provision of customer-facing services that support retail competition, e.g. help lines and information services?
- ◆ Maintenance of metering point address data?

5.72 How should IDM/SPA/MPAS services be procured or provided:

- ◆ Through a licence obligation on the gas transportation and electricity distribution companies (as at present), covering sites on their respective networks?
- ◆ By suppliers, for those sites on their respective portfolios, to meet a licence obligation?
- ◆ Through collective procurement by all relevant industry participants, as with other industry services such as the DTN?
- ◆ By third party service who charge client suppliers for the service, obtaining the necessary data from incumbent suppliers and agents?
- ◆ Through a combination of some of the above?

5.73 What incentives will be needed, and how should these be implemented?

5.74 What monitoring and policing of performance and behaviour will need to be undertaken? Who should undertake this work, or the constituent elements?

## 6. Making Changes

### *Governing the transfer process*

- 6.1 As described in chapter 2, the transfer processes are defined in agreements signed onto by industry parties. In gas the principal agreement is a Network Code, which establishes the contractual arrangements between a PGT and shippers, including the SPA arrangements. Transco's Network Code has a defined modification procedure, which allows only shippers or Transco to propose a modification. All such modifications have to be approved by Ofgem and normally all parties are consulted before a final decision is made. In response to pressures from shippers and suppliers, other PGTs have stated their intention to base their electronic SPA processes on Transco's interface specification. Similarly, modifications to IPGT Network Codes must have Ofgem approval.
- 6.2 In electricity the processes for the retail market are defined in the MRA, which is signed by suppliers, distribution companies and the settlement bodies. The DTC specifies the content of the data flows used to support each process and includes a Data Item Catalogue that defines the data items to be used. Interoperability has been achieved through a detailed and stringent process of documenting the design model and with performance assurance testing.
- 6.3 Many of the changes to the transfer process discussed in chapter 5 would need to be defined and documented in these industry agreements. Changes to the MRA and Network Code can only be proposed by signatories to the agreements. Changes to the MRA require a high level of consensus between all parties to be accepted as modifications. Such consensus is often hard won and involves long lead times and significant input from industry participants. Ofgem must be satisfied that the proposed Network Code modification better facilitates the relevant objectives set out in the PGT's licence before agreeing to a change. The change control processes in both industries have been designed to give participants security that they will be able to scrutinise of all proposed changes, to enable them to assess the risks, costs and benefits of change and to have influence over the process. Whilst this brings a level of stability to the design framework, it can make discussion and evaluation of significant design changes

difficult to conduct. At any one time, some participants are likely to dissent from proposals for change, especially where parties perceive that they may be exposed to the costs related to a modification with no clear benefits accruing to them.

- 6.4 As a result, groups that are responsible for governance in both gas and electricity have agreed and implemented changes that respond to particular deficiencies in the existing processes, but have not proactively sought to amend the basic design problems that have hampered the domestic market. Although such a review would not be outside the scope of the respective governance arrangements, it has not happened. Partly this is a reflection of the number and significance of the other changes that both industries have had to deal with over the last three years, including the introduction of competition into metering and meter reading, New Gas Trading Arrangements and the New Electricity Trading Arrangements. However, the responses to the ICT questionnaire indicate that there is a degree of resignation to the fact that collective agreements inhibit development and innovation where there is a requirement for widespread change.
- 6.5 The response to our questionnaires supported the alignment of gas and electricity process in terms of the timing of key processes, but there was mixed support for aligning systems. The difficulties of achieving alignment are exacerbated by the completely separate governance arrangements for each sector. The industry has failed to achieve alignment in key areas, even when there were clear opportunities being discussed by companies that are active in both sectors. For example, the working practices developed to resolve CoS read disputes in the electricity sector are different in key aspects from the long-established and much-refined practices in the gas sector. This prevents suppliers from re-using proven systems and procedures to meet what is essentially the same business requirement.
- 6.6 There may be significant benefits in aligning data standards between the two sectors. For example, the use of the same standardised format for metering point addresses would enable suppliers to more easily identify the details for a dual fuel customer. Work could be undertaken to develop a data dictionary for the gas sector, to make it compatible and comprehensible with the Data Item

Catalogue already defined in electricity's DTC. However, the governance arrangements and commercial positions could make such exercises problematic.

6.7 Ofgem is reviewing the arrangements for Network Code governance. The high level objectives are as follows:

- ◆ To determine whether the current regime is operating in an equitable and efficient manner. If not, then Ofgem will consider reforms.
- ◆ To ensure greater consistency within the gas industry – between IPGTs and between IPGTs and Transco – and between the gas and electricity industries.

### ***Incremental refinements to the existing processes***

6.8 As discussed in chapters 2 and 5, there is compelling evidence to suggest that the current transfer systems could be significantly improved. A number of refinements to the existing industry designs were described in chapter 5, drawn from proposals from industry participants or ideas generated during the ICT project.

6.9 The existing governance arrangements should be able to manage what are essentially incremental changes, addressing specific processes and data flows rather than the fundamental principles of the design.

6.10 Indeed, many of the improvements to the operation of the existing transfer processes are already being developed, although in some cases the industry has sought direct intervention from Ofgem to facilitate discussions. Examples include the establishment of data standards and revised processes for maintaining addresses and the development of working practices for resolving CoS read disputes.

6.11 However, the time from first proposal of a change to its implementation can be considerable, even when there appears to be a clear justification. In some cases, such as the SAR Avoidance Process, suppliers have sought alternative mechanisms to address particular issues because it had not proved possible to deliver a timely solution through the change control mechanism.

### ***Collective re-engineering***

- 6.12 Chapter 5 suggested that the industry could take the opportunity to re-engineer the customer transfer processes, starting from first principles, and building on the experience and lessons learnt to date.
- 6.13 There is unlikely to be any appetite for another programme of major change, with the associated challenges of drawing together many diverse perspectives and positions. As such, the governance groups would probably reject any proposal calling for wholesale re-engineering of processes. They do not have sufficient scope to be able to consider the whole of the retail design. Agents providing metering and meter reading services are not signatories to the MRA, and Transco's Network Code deals with obligations between Transco and shippers, not suppliers or metering service providers.
- 6.14 In any case, it is not clear who could take on the lead role in formulating the design proposals and providing administrative support, especially as the exercise would ideally cover both gas and electricity sectors in order to achieve alignment where appropriate.
- 6.15 It was noted earlier that Transco might propose to make fundamental changes, or develop new SPA systems and interfaces, at the time of separation of its metering businesses. However, it would be important that any such exercise should involve all relevant industry participants and meet an agreed set of principles, as set out in chapter 4.

### ***An evolutionary regime***

- 6.16 The development of enhanced facilities, sitting alongside the current interfaces, has been explored with various contributors to the ICT project. These would give incoming suppliers more control over the management of their transfers and allow suppliers to migrate to the new business processes, or choose to stay with the existing mechanisms until they were confident that change was justified. It would be important however to ensure that enhancements did not increase costs or create confusion for other market participants and that interoperability was maintained.

6.17 Such an evolutionary regime presents a number of challenges to the current governance arrangements, which are largely based around the use of common processes and interfaces, with simultaneous change by all relevant participants. These challenges include:

- ◆ Reluctance by suppliers not yet ready to adopt new facilities to sanction developments that might provide competitive advantage to other suppliers.
- ◆ Questions about the funding of developments and charges for use of enhanced facilities. Concerns about how development costs should be apportioned between early and late adopters.
- ◆ Similar questions about the recovery of costs associated with maintaining older interfaces that continue to be used by only a few participants.
- ◆ Resistance by PGTs and distributors, for example, to invest in system developments that will deliver little benefits to themselves, even though other participants achieve substantial gains.

6.18 It is clear that some parties have considered developing systems which would work in parallel with the existing system, to allow data to be more easily transferred between contracted parties, e.g. between suppliers, data collectors and meter operators. However, they have concerns as to whether such an approach would be sanctioned. The agent accreditation arrangements specify the data flows that must be used for exchanging data required for the settlement systems and agents have little leverage to challenge these rules. In principle there is no reason why parties should not develop alternative arrangements providing that they satisfy the basic requirements, e.g. that interoperability to support the transfer process is maintained and data entering settlement can continue to be reliable and is auditable.

6.19 Several organisations have suggested that they would be interested in providing enhancements or core services, such as the operation of an IDM facility. This would typically require that they had access to the necessary data and interfaces to make such a service available. In principle, there would appear to be no reason why third parties should not be able to provide value added services,

provided that basic conditions of data integrity, confidentiality and protection were met. An example of this type of development is the SAR Avoidance Process, which sets out to create a specific additional service to support suppliers, but given access to data held by Transco could provide many more facilities.

### *Cost of changes*

- 6.20 The governance mechanisms allow industry participants to debate proposed modifications and agree implementation arrangements. The decision as to how to make a change will involve participants considering the costs and benefits to themselves, as well as recognition of the obligations they may have under licence conditions, contracts or other industry agreements.
- 6.21 Refinements to the existing processes will in most cases mean that all relevant industry participants will have to make changes simultaneously, on the defined implementation date. The costs they incur will vary considerably and calculating them will depend on the efficiency with which they make changes, the current state of development of their systems and processes in respect to the proposed change and the flexibility of those systems and processes. However, accurately assessing the benefits that a participant will obtain over time from a particular change may be considerably harder, particularly where the benefits include savings in activities that were not quantified, such as the costs of policing and monitoring the performance of other participants.
- 6.22 The discussions that we have had with industry participants suggest that there are substantial costs involved in supporting the existing processes, both in terms of actual incurred costs and the opportunity costs resulting from the restrictions that the current systems impose. There should therefore be sufficient commercial drivers to support innovation against which participants will judge when, and if, they wish to invest in developments. However, those who choose not to make such investment should not restrict the reasonable requirements that other participants may have to gain efficiencies, support new routes to market or provide an enhanced service to customers. New entrants to the market will expect the customer transfer process to operate in an efficient manner such that they can readily start supplying customers. The more complicated the systems

and procedures, the higher the costs faced by new entrants in learning and interpreting the procedures and in building their systems. This raises the potential for challenge as to whether the transfer process is unnecessarily complex or is inefficient in its design and operation.

### *The role of Ofgem*

- 6.23 Ofgem's role in relation to the network codes and the MRA stems from its responsibility as a regulator to promote competition in the energy industries and in particular to ensure effective competition where monopoly situations may hinder or obstruct it. In the exercise of this role Ofgem supported the introduction of these industry agreements, which define how network operators must provide their services to competing suppliers and establish a framework for the conduct of these businesses. Because these agreements were designed to facilitate competition, and were supported by Ofgem on that basis, the agreements were given exemptions under the Restrictive Trades Practices Act 1976 (RTPA). Any revision to the agreements would need to be judged against the same criteria, the key test being whether the agreements in their amended form would continue to promote and support the development of competition in the industries.
- 6.24 In addition to its statutory responsibilities to promote competition under the Gas Act and the Electricity Act, Ofgem now has concurrent jurisdiction with the Office of Fair Trading under the Competition Act. This jurisdiction enables Ofgem to examine agreements against the Competition Act criteria, either on its own initiative or as a result of complaints by third parties, and to issue directions to counter any agreements that it considers are in breach of the Chapter I prohibition on anti-competitive agreements, or the Chapter II prohibition on abuse of a dominant position. As the network codes received exemptions under the RTPA, they benefit from a transitional exemption under the Competition Act until 1<sup>st</sup> March 2005<sup>5</sup>. However, any substantial amendment would remove the

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<sup>5</sup> Where agreements are excluded from RTPA by virtue of s.62 of the Gas Act 86 or s.100 of the Electricity Act 89 and were entered into before 1 March 2000 (the enactment date of the Competition Act 1998) they will be exempt until 1<sup>st</sup> March 2005. Ofgem has the power to grant a new agreement an exemption to Chapter I of the Act (which prohibits agreements, which may affect trade and have as their object or effect the prevention, restriction or distortion of competition).

(continued...)

transitional exemption, enabling the agreement in question to be re-scrutinised against the Competition Act criteria. The exemption can also be brought to an end through action by Ofgem, if it were to be considered that the market had changed to the extent that the agreement was no longer justifiable against the public interest criteria.

6.25 Ofgem has a duty under the Gas Act and Electricity Act (as modified by the Utilities Act) to protect the interests of consumers, wherever appropriate by promoting effective competition, and would need to take account of this duty in considering changes to licence conditions.

6.26 A number of approaches could be taken by Ofgem to instigate, facilitate or support change within the industry. For example, Ofgem could:

- ◆ Seek to prescribe a solution, establishing a design for the industries as to how the transfer process should be conducted and facilitate the implementation of that solution.
- ◆ Set out the key principles that the transfer systems should embody and broker agreement between industry parties in the design of appropriate systems.
- ◆ Set out revised obligations for gas transporters, distributors, shippers and suppliers through licence conditions.
- ◆ Review the current industry agreements to consider whether they are unnecessarily restrictive and act as a barrier to competition.
- ◆ Facilitate discussions with industry parties to initiate changes, for example establishing a forum to consider data standards.

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An exemption may be granted once a notification has been received and will be granted if it contributes to:

- ◆ improving production or distribution or
- ◆ promoting technical or economic progress
- ◆ while allowing consumers a fair share of the resulting benefit;

but does not:

- ◆ impose on the undertakings concerned restrictions which are not indispensable to the attainment of those objectives; or
- ◆ afford the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the products in question.

- ◆ Await a formal complaint from an industry participant or prospective entrant.
- 6.27 There have been a number of cases since the introduction of competition where Ofgem has taken a proactive role in facilitating industry solutions to problems. These include the Biscuit project discussed in chapter 2 and the development of “workarounds” to CoS issues, such as amending meter reading and dealing with erroneous transfers. This approach has been adopted due to the need quickly to find solutions to issues that were only properly discovered and understood as competition was introduced. Ultimately though it is for industry participants, through their agreed change mechanisms, to adopt and implement proposed solutions.
- 6.28 In considering how the transfer process could be improved we have suggested that industry participants should, in respect of major changes, be encouraged to develop at their own pace and in particular that change which involves all suppliers should be kept to a minimum. The development of the transfer process should, as far as is practical, be allowed to develop in response to commercial and competitive forces.
- 6.29 Whilst it is appropriate that Ofgem initiates a debate about how the systems and processes which support customer transfers can be improved, Ofgem is not seeking to take the lead in specifying the design solutions that suppliers may wish to adopt, or the programme of implementation that may be needed to see those designs achieve operational status. However, we recognise that Ofgem may need to respond to requests from industry participants to facilitate or instigate changes. In particular, Ofgem will need to consider whether the licence conditions and price control arrangements sufficiently encourage the transportation and distribution companies to play an active role in improving the customer transfer process.

### ***Summary***

- 6.30 Ofgem has obligations through its role as the competition authority to approve the industry agreements that define the transfer process. There is evidence to suggest that the current processes are not optimised to support the domestic

market and that some suppliers and new entrants consider that inefficiencies in the process inhibit the development of competition.

- 6.31 The governance arrangements which control the modification process for the MRA and Network Codes have dealt with incremental changes, but to date have not initiated a major review of the effectiveness of the transfer process. The types of changes discussed in this document could be managed through industry governance mechanisms or individual arrangements, but if this approach proved ineffective it may be necessary to introduce requirements in standard licence conditions.
- 6.32 Ofgem may also need to respond to complaints that industry participants are prevented from adopting innovative and alternative ways of working, because the current industry agreements too strictly define the way that participants must operate, or that too wide a scope of processes are covered.

### ***Views Invited***

- 6.33 Are the current governance arrangements appropriate for the discussion and assessment of the proposals put forward in this document and the development of new proposals, or is a different approach needed?
- 6.34 Are the current governance arrangements capable of facilitating major change?
- 6.35 What should the role of Ofgem be in relation to the development and implementation of improvements to the transfer process?

## 7. Conclusions & Next Steps

### *Conclusions*

- 7.1 Ofgem is aware that there are shortcomings in the current arrangements for handling customer transfers. The experience and lessons learnt over the four years since the opening of competition in the domestic energy markets led Ofgem to undertake the ICT project. The level of transfer-related complaints received by Ofgem and consumer groups, recommendations of the National Audit Office and issues raised by market participants themselves all supported this project.
- 7.2 The ICT project set out to review the current processes, to assess the opportunities for improvements in this area, to explore the approaches that could lead to improvements and to establish whether the current arrangements are preventing improvements from being achieved. This report seeks to generate and offer proposals for further debate on all of these aspects, rather than propose a programme of changes that the industry should undertake.

### **Findings**

- 7.3 The current transfer processes have generally worked reliably and have facilitated the roll-out of competition in the domestic gas and electricity markets. However they are complex and expensive to operate. Suppliers and customers incur too many problems as a result of intrinsic shortcomings in the design of the processes and poor performance by other market participants.
- 7.4 Retail markets are also changing, bringing new technologies and new ways of interacting with customers. Customers and companies are challenging the ways that services are delivered, especially where there are questionable constraints, mandatory procedures or perceived barriers to entry. In many respects, the customer transfer processes in both gas and electricity do not match the requirements of modern, competitive retail markets, or meet the future expectations of customers.
- 7.5 The ICT review has identified that there are opportunities to improve the current processes substantially, to the benefit of customers, suppliers and other market

participants. The current infrastructure has little flexibility to allow suppliers unilaterally to improve their operation for handling the take-on of customers, a key area in which suppliers would want to be able to control and differentiate their propositions.

- 7.6 To guide further discussions and developments, Ofgem has set out in this document the principles that it believes should be satisfied by a customer transfer process.

### **Making improvements**

- 7.7 Greater steps could be taken to enforce the current arrangements. In several areas, market participants are not meeting the obligations placed on them by the industry agreements or the regulatory framework and the processes and working practices are not adequate or not mandatory. These shortcomings lead to degradation in data quality, extension of lead times and problems for customers.
- 7.8 There is a clear business case for the respective sectors to move quickly to implement some of the refinements discussed in chapter 5. However, there is also a risk that stricter enforcement and collective refinement of an intrinsically flawed process would result in higher costs, longer lead times for changes, and even less opportunity for suppliers to differentiate the services they provide to customers. Such an approach may not deliver the significant benefits that customers expect and may not achieve an infrastructure that supports a modern domestic retail energy market.
- 7.9 Three different approaches to achieve fundamental improvements have been explored.
- ◆ Almost all improvements made to the customer transfer processes since their inception have been through incremental **refinements** or adoption of supplementary working practices and there is scope to continue with this approach. However the current industry governance procedures mean that even small refinements require the commitment of all relevant industry participants to collective simultaneous change. Experience has shown that achieving consensus for change is often time consuming and difficult.

- ◆ The industry could **re-engineer** the customer transfer processes, building on the experience and lessons learnt to date. There is unlikely to be much appetite for another programme of major collective change and it is not clear which organisations should take on the lead role, especially as the exercise would ideally cover both gas and electricity sectors to achieve alignment where appropriate.
- ◆ There appear to be real opportunities for the industry to adopt a more **evolutionary** approach to change. The current infrastructure provides little flexibility for suppliers unilaterally to improve their operations for handling the take-on of their customers, a key area in which suppliers may wish to be able to control and differentiate their propositions. The development of enhanced facilities, sitting alongside the current interfaces, would give incoming suppliers more control over the timing and impact of the changes they make to their own operations.

However, such an evolutionary regime presents a number of challenges for the current governance arrangements, which are largely based around the use of common processes and interfaces, requiring simultaneous change by all relevant participants.

7.10 The approach taken would determine the manner in which changes were considered and implemented by the industry. Ofgem's current view is that individual industry participants should be allowed to develop their processes and operations at their own pace in response to commercial and competitive forces and that collective change should be kept to a minimum. This suggests that there are distinct advantages with the evolutionary approach.

7.11 A better infrastructure for the domestic gas and electricity sectors could:

- ◆ Allow more scope for differentiation in how companies operate, whilst maintaining interoperability in key aspects and ensuring the integrity of the settlement arrangements.
- ◆ Allow suppliers and agents to make investments and changes to their systems and processes, to meet their individual business needs and utilise effectively the full range of channels and interfaces in serving their

customers. The need for simultaneous collective change would be minimised.

- ◆ Increase reliability and robustness, and decrease lead times, exceptions and problems associated with customer transfers.
- ◆ Reduce the level of regulatory intervention required to ensure that the market operates effectively.

7.12 The industry does not need to start from first principles and redesign the infrastructure for transferring customers between suppliers. The current arrangements provide a bedrock that should support future developments, including:

- ◆ Obligations, set out in licences and industry agreements, for certain activities to be undertaken by defined participants. Examples include the need for distributors to update metering point address changes and suppliers to notify participants of changes in relevant information.
- ◆ SPA or MPAS services and interfaces that provide interoperability between the participants involved in customer transfers.
- ◆ Data dictionaries that define the data that needs to be held and exchanged in order to facilitate the transfer of customers. The main dictionaries are administered by MRASCo, Transco and the Biscuit working group.

### ***Moving forward***

7.13 The ideas discussed in this report are not revolutionary. Suppliers have some ability through agent competition to improve the contractual basis for their performance. The industry has long recognised that data standards are important. Transco has demonstrated that it is possible to provide more widespread access to data and raised the argument for a clear legal framework to support this requirement. Service providers already deliver key operational facilities and services to industry participants.

7.14 Ofgem's intention is to stimulate further debate within the industry and offer proposals to support discussion of the way forward. However it is important that the industry does not pause in its efforts to refine aspects of the current arrangements, particularly where there is a clear case for implementing changes that would quickly deliver benefits.

7.15 Several of the refinements discussed in chapter 5 are desirable whichever approach to reform is adopted. Ofgem will continue to provide its support to industry initiatives that are addressing these refinements, including the following:

- ◆ Exercises to improve the address data held for metering points. The objective is to achieve and maintain a unique, accurate and current address for each metering point, to a national standard that is based on de facto standards and data sets such as the Post Office Address File (PAF). Both gas and electricity industries should adopt the same standard, to make it possible to cross-reference between data sets when identifying customer properties. The processes that support address data queries and notification of changes should also be robust and clear, along with the responsibilities of participants. A draft Standardised Address Format has been developed, specifically for metering point addresses and is available from the Ofgem web site.
- ◆ The proposal to remove the ability of incumbent domestic suppliers to block a customer transfer if the supplier has not received sufficient notice of contract termination from the customer. A trial has demonstrated that this proposal should substantially reduce the number of transfers that are blocked, and gas suppliers are currently voting on the proposed licence changes.
- ◆ Work to establish better, preferably mandatory processes for handling CoS reads and disputes about CoS reads in both gas and electricity sectors. Particular efforts are needed to improve the practices in the electricity sector.
- ◆ Work to establish better, preferably mandatory processes for handling the return of erroneous transfers, again in both sectors.

- ◆ Efforts to ensure that processes developed to support competition in gas metering services are robust and do not impair the ability for a customer to change supplier.

7.16 Ofgem also intends to continue with its work to:

- ◆ Clarify the ongoing responsibility of Transco's transportation business in providing SPA services and holding key data on behalf of the industry, after the separation of its metering businesses.
- ◆ Consider whether the licence conditions and price control arrangements sufficiently encourage the transportation and distribution companies to play an active role in improving the customer transfer process.
- ◆ Review the Network Code governance arrangements, to determine whether the current regime is operating in an equitable and efficient manner, and consider reforms if it is not. This review also aims to ensure greater consistency within the gas industry – between IPGTs and between IPGTs and Transco – and between the gas and electricity industries.

7.17 The clear definition of industry data standards is also essential to effective interoperability. Ofgem considers that the data dictionary that supports the gas infrastructure should be more widely available. This is currently held internally by Transco, as design authority of the UK Link systems and SPA interface file formats, but is not available to other industry participants. By contrast, the data dictionary for the electricity sector, the DTC is published and administered by MRASCo, which acts as the design authority.

7.18 Alignment of data standards for gas and electricity sectors is probably a prerequisite for the alignment of customer transfer processes. The type of data involved in each sector is broadly the same, with the significant differences being in the detail of, for example, meter technical data. Ofgem proposes to initiate a joint data standards work stream to bring together and progress the considerable work that has already been undertaken in this area. The objectives of such a work stream would be to agree a high level data structure for industry data, establish the data elements (e.g. metering point address, meter ownership,

consumption) that should have common standards covering both sectors and support the general alignment of data standards. The initial scope could be limited to data related to customer transfers and metering services.

### ***Challenges for the industry***

- 7.19 This document outlines three basic approaches that the industries could take to achieve improvements, identifies a number of refinements that could be made, and presents several models that could facilitate the evolutionary, asynchronous development of processes. These were developed through discussion with contributors to the ICT project and are offered as a starting point for further discussions. Industry participants, potential entrants, service providers and other interested parties may wish to consider these, as well as other options, in formulating views on changes that should be made to the infrastructure and industry agreements.
- 7.20 Ofgem would also welcome industry initiatives that challenge whether certain processes need to be mandatory and support reviews of the agreements that make them either mandatory or de facto. For example, participants may challenge the requirement for communications between suppliers and their agents to be conducted using DTC flows over the Data Transfer Network, especially where it could be demonstrated that alternative mechanisms would be more effective and maintain the integrity of data outputs.
- 7.21 A key argument has been that substantial benefits would be achieved by facilitating earlier access by incoming suppliers to (better) information about sites and customers that they intend to transfer. Such access is not precluded by current licences, but not supported by industry agreements or interfaces. Work would be needed to:
- ◆ Develop the mechanisms to provide access to the relevant data held for each metering point, as discussed in chapter 5 along with the steps involved to implement the mechanisms.
  - ◆ Establish the clear, legal framework that would support access to a limited set of data, by authorised participants, for prescribed purposes. Such a framework would be required to address issues related to data

protection and could be implemented through changes to industry agreements such as Network Codes and the MRA, or changes to licences of suppliers, PGTs and distributors.

- ◆ Consider the role of service providers in the delivery and maintenance of enhanced services. This could offer benefits in terms of service competencies, economies of scale, consistency, standardisation, performance, and data quality improvements.

7.22 The project has highlighted questions about the role that Ofgem should play in taking forward improvements. The primary duty of Ofgem is to protect consumers, wherever possible by the promotion of competition. It also has a responsibility with respect to compliance of market participants with their legislative and regulatory obligations. This has involved Ofgem in both monitoring activity and performance to identify potential issues and in responding to complaints about particular participants. Ofgem also has a role under the Competition Act as competition authority to ensure that the Network Codes and MRA do not unnecessarily restrict or distort competition and adjudicate appeals about proposed changes to these agreements.

7.23 Ofgem welcomes suggestions on how it could best support the industry debate about the need for such change, and the assessment of alternative models.

### ***Next steps***

7.24 This consultation document reports on the findings of the ICT project to date and seeks to generate and offer proposals for further debate. Ofgem will be arranging a workshop in January 2001, jointly with energywatch, to take forward discussion of the issues raised. Responses to the consultation would be appreciated by 9<sup>th</sup> February 2001 and Ofgem intends to publish a summary of the feedback it receives. Ofgem also expects to issue a progress report covering the discussions and decisions that have been made in the 6 months following publication of the consultation document.

## Glossary

Actual read	A reading taken from a gas and electricity meter usually by a meter reader.
Agent	A provider of metering services to electricity suppliers including meter operator, data collector and data aggregator.
Agent Competition	An electricity industry initiative to allow suppliers to select the agent of their choice to provide metering services.
Agent Accreditation	Entry processes for completion by Agents to the satisfaction of Elexon Performance Assurance Board and Scottish Electricity Settlements.
Agreed Read	A meter reading that is agreed by incoming and outgoing suppliers and the customer and replaces an earlier CoS meter reading.
Annual Quantity (AQ)	An estimate of the consumption of gas per meter point for the forthcoming year.
BISCUIT	Basic Inter-Supplier Communication Using Internet Technology. An Ofgem facilitated scheme to encourage gas suppliers to communicate using the Internet in a mutually agreed and standardised format.
Change of Supplier (CoS) process	The systems and processes that facilitates a customer transferring to a new gas or electricity supplier.
CIDA	Central Integration and Design Authority established by the PESs, the Pool and the Director of OFFER to help establish the infrastructure design for the 1998 Trading Arrangements.
Confirmation	A data flow sent by a gas supplier (via their shipper) to the relevant PGT requesting that they take over the supply of gas to a particular Meter Point on a particular date.
Cooling-off Period	A legally required period, to allow customers the opportunity to reconsider contracts they have entered into through doorstep sales, telesales or the Internet.
Core MPAN	A unique 13-digit reference number for each electricity metering point, which includes a two digit number identifying the host Distributor.
CoS Meter Read	A Change of Supplier meter read to apply at the point of transfer of a customer.
Cyclic Read	Actual meter reading obtained to support billing and settlement.
Data Aggregator (DA)	An Agent appointed by an electricity supplier to carry out the aggregation of metering data received from Data Collectors and to forward such aggregated data to the Initial Settlement and Reconciliation Agent.
Data Collector (DC)	A person appointed by an electricity supplier to retrieve, validate and process metering data.

Data Item Catalogue	An annex to the Data Transfer Catalogue which defines the meaning and characteristics of data items that comprise the Data Transfer Catalogue data flows.
Data Transfer Catalogue (DTC)	Catalogue of data flows, data formats and definitions that support the Master Registration Agreement.
Deemed Read	Estimated read generated by the Data Collector to coincide with the Change of Supplier.
Designated Premises	Domestic premises or premises at which the normal annual consumption of electricity will amount to no more than 12,000 kWh.
Distribution Company	A licensed company responsible for the distribution of electricity from the transmission network to individual metering points.
Distributor	A Distribution Company.
Data Protection Act (DPA)	Act which makes provision for the regulation of the processing of information relating to individuals, including the obtaining, holding, use or disclosure of such information.
Data Transfer Network (DTN)	The electronic network provided as part of the Data Transfer Service over which electricity data is transferred between market participants.
Dual Fuel	A product offered by suppliers combining the supply of both gas and electricity to customers.
DUoS Agreement	Distribution Use of System Agreement. The contract between electricity Suppliers and Distributors which sets out the terms for charges to suppliers.
Economy 7	A tariff offered by electricity suppliers to provide cheaper energy overnight.
Energywatch	Represents the interests of all gas and electricity consumers. It was set up by Parliament in November 2000 with the merger of the Gas Consumers Council and Ofgem's regional electricity offices.
Erroneous Transfer	Incorrect transfer of a customer by a supplier with whom the customer does not have a contract.
Estimated Meter Read	A calculated meter reading based on previous meter readings and expected levels of consumption.
Exception	A case that is not dealt with by systematic processes and therefore requires special or manual action.
Gas Consumer Council (GCC)	The representative body for gas consumers that was incorporated into energywatch in November 2000.
Independent Public Gas Transporter (IPGT)	A company, other than Transco, licensed to install and maintain gas pipelines/networks.
Industry Data Manager (IDM)	Manager of a central repository for industry data.
Isolated Meter Point	Disconnection of the supply of gas to a meter point, usually by capping the meter or removing the meter.

IX Network	An information exchange system allowing electronic transfer of data between Transco and UK Link Users.
kWh	Kilowatt hour.
M Number	See Metering Point Reference Number.
Master Registration Agreement (MRA)	Electricity industry agreement to provide governance for the operation of MPAS services and the processes and practices used for customer transfers.
Meter Operator (MOP)	An accredited Agent appointed by an electricity supplier or, where applicable a customer to; provide metering equipment whether by way of sale, hire or loan; install, commission, test, repair and maintain metering equipment; and maintain related technical information.
Meter Serial Number	An identification number printed or stamped on the front of a meter by the meter manufacturer.
Meter/Timeswitch Code	A code number found in the full MPAN for an electricity meter point which describes the functionality of the meter and how it has been configured to support a particular charging regime.
Metering Point Administration Number (MPAN)	A unique 21 digit number which identifies a meter point and is printed on customer bills.
Metering Point Administration Service (MPAS)	Register of data and services necessary to facilitate supply by any electricity supplier to all metering points within the relevant Distributor's area
Metering Point Reference Number (MPRN)	A unique 10 digit reference number for identifying gas metering points.
MRASCo	service company to maintain and develop the range of MRA products.
Network Code	Contractual agreement between PGT and a shipper setting out terms for the transportation of gas and associated activities.
National Land Information Service (NLIS)	An initiative to provide improved information about land and property, designed initially to support conveyancing but will also have other uses.
National Land and Property Gazetteer (NLPG)	An initiative to provide unambiguous identification of land and property throughout Britain.
Objection	The mechanism used by an incumbent supplier to block the transfer of a customer to another supplier.
OFFER	Office of Electricity Regulation.
Ofgas	Office of Gas Supply.
Ofgem	The Gas and Electricity Markets Authority.
Opening Meter Read	See CoS Meter Read.

Public Electricity Supplier (PES)	The former regional electricity companies who now hold PES licences.
Pool	The Electricity Pool of England and Wales is a mechanism to allow trading between generators and suppliers and to operate a settlement process for determining the amounts due by each supplier. A separate agency, Scottish Electricity Settlements fulfils a similar function for Scotland.
Postcode Address File (PAF)	A data set available from the Royal Mail that contains references to mailing points within the UK.
Pre-payment meter	A gas or electricity meter that requires the customer to pay in advance of their energy consumption.
Price Controls	Regulatory constraints on dominant companies to govern revenues and structure charges for their customers.
Profile Class	A classification which represents a category of customers whose consumption can be reasonably approximated to a common profile.
PES Registration System (PRS)	See Metering Point Administration Service (MPAS).
Public Gas Transporter (PGT)	The holder of a licence pursuant to the Gas Act 1986 for the conveyance of gas through pipes which are situated in their authorised area.
Registration	Notice given by an incoming supplier of its intention to take over responsibility for supplying a site.
Returners process	Process to repatriate customers to their original suppliers or after an erroneous transfer.
S Number	See Metering Point Administration Number.
Shipper	Company licensed to convey gas on a PGT network to individual supply points.
Sites and Meters Database	Transco managed database which holds information related to gas supply points.
Supplier	A company licensed to supply gas or electricity to customers through mains pipes or a distribution network.
Supplier Hub	The combined activities of a supplier and its agents for which the supplier is held responsible by industry agreements.
Supply Point Administration (SPA)	The register of data and services managed by the relevant Public Gas Transporter that facilitate competition in gas supply.
Supply Start Date (SSD)	Date from which an electricity supplier becomes responsible for a meter point.
Tariff	Charging structure prepared by suppliers for classes of customers.
Transportation	Conveyance of gas through a network of pipes.
UK Link	The set of systems developed by Transco to facilitate competition in gas supply.
Working Practice	Non-mandatory procedure mutually agreed by market participants.

## Appendix 1 : Survey Summary

- 1.1 In May / June 2000 Ofgem issued questionnaires to gauge the views of the industry and customer representative groups on the current gas and electricity customer transfer processes. The aim of the questionnaire was to help identify whether respondents felt that there was a requirement for change. In total 26 industry participants and 12 customer representative groups provided responses.
- 1.2 Following is a summary of questionnaire responses in each of the 7 key areas identified.

### *Data Quality, Access and Communications*

- 1.3 Respondents reported some concerns about the quality of industry data, particularly the MPRN/MPAN and address data provided by PESs and PGTs. The accuracy and uniqueness of this data affects the ability to transfer customers correctly. Concern was most pronounced for IPGTs and in general respondents felt that there were serious impediments to competition on these networks. Respondents also felt that the large number of different source databases in the electricity market often caused problems where they were not synchronised.
- 1.4 There were also concerns about the inconsistency in the way in which data was held and published by the different service providers, which include Transco, IPGTs and 14 PESs. Many respondents felt that the responsibilities for holding data and ensuring its quality were unclear, with several commenting that the proposed gas metering liberalisation added to the confusion. Almost a third of respondents reported that the responsibilities for holding data and ensuring its quality currently did not reside with the correct parties.
- 1.5 In gas, respondents felt that there were weaknesses because some key communication links were not available to all relevant parties. In particular, there were problems with communicating with IPGTs and complaints that suppliers often had to communicate with Transco through their shipper unnecessarily.
- 1.6 There was some support expressed for a single communications framework for both industries. Parties felt that the existing communication systems were robust,

but that there may be some benefit in reviewing the appropriateness of the existing communication technologies. One respondent noted that existing networks were over designed and too expensive.

- 1.7 There was some support for improving customer access to (better quality) data, especially details of the supplier responsible for their property, or the relevant MPRN/MPAN. Respondents noted the number of different parties that a customer might have to contact to obtain this information, and advocated that a single telephone number be established.
- 1.8 Some respondents felt that an independent central industry database would be of benefit, particularly in the electricity market. This could contain MPAN/MPRN and address data, as well as other data required to transfer. It could also potentially act as the industry supply point administration manager for the whole energy market. Respondents commented that such an approach could result in consistent data, processes and service levels, as well as acting as the source for customer enquiries about their supplier identity and MPRN / MPAN numbers. One respondent suggested that there could be public access to such a database, but noted potential security issues.

### *Timescales*

- 1.9 Parties felt that where possible the timescales for transferring customers should be reduced but that this should not be done at the expense of quality. Currently, suppliers estimated that it took on average 6 to 8 weeks from a customer signing a contract to the take on of supply responsibility by the chosen new supplier. In many cases the time taken to transfer was much greater.
- 1.10 Several respondents felt that the existing systems, which dictated a long transfer timescale, were frustrating the introduction of new and innovative business models. The market infrastructure should not impede suppliers striving to compete on improved and innovative services. Industry participants felt that there were costs associated with making the changes required to facilitate shorter timescales and that the ability to operate to current timescales using existing systems should be maintained, alongside facilities for suppliers who wished to operate to reduced timescales.

- 1.11 The long transfer timescales also meant that where customers were transferred in error, then the time taken to correct that mistake was lengthy. Shortening timescales or introducing new ways of working are required to ensure that erroneously transferred customers are returned to their chosen supplier quickly. One respondent felt that the registration process should be handled retrospectively once a customer had identified that they had been erroneously transferred. Respondents believed that the ICT Project needed to consider ways of either eradicating or reducing the impact of process errors on customers, which could require immediate or rapid transfers. Consideration should be given to same/next day transfers for circumstances such as changes of occupier.

### ***Alignment***

- 1.12 Both customer representatives and industry participants said that there was a requirement for alignment between the gas and electricity transfer processes. Some respondents noted that alignment already exists to some extent, for example with the selling of dual fuel contracts and that suppliers have the ability to align many transfer timings.
- 1.13 Parties felt that, where a system or process provided benefits in one industry, then it could potentially be applied to the other fuel. For example, respondents felt that the ability to withdraw registrations could usefully be extended to the electricity industry whilst the ability to inform the old supplier that there had been a change of occupier and they should not object on grounds relating to the previous occupier, should be adopted in the gas market. Responses from industry participants indicated much support for the automatic notification of the identity of the other gas supplier, as in electricity.
- 1.14 Respondents felt that where similarities between the two industries already existed then these could usefully be aligned. Examples of this can be seen with the windows for obtaining and submitting opening meter reads which respondents felt should be the same, if slightly longer and the timing of the other components of the transfer process.

### ***Transfer Meter Reads***

- 1.15 Whilst there was general support for the desirability of an actual meter read for a successful customer transfer, many industry participants did not feel that it was feasible to impose a requirement for actual reads for every transfer. However, responses indicated that there was acceptance that customers wanted to have actual meter reads used in finalising and opening accounts. Some respondents advocated the introduction of incentives or licence conditions to increase the use of actual CoS meter readings.
- 1.16 Respondents had varying views on the quality of deemed or estimated CoS meter readings. Similarly, there were diverse opinions on whether previous meter read history should be provided to incoming suppliers, to assist with the opening meter read process and support ongoing customer billing. Several respondents noted the proposal for the outgoing gas supplier to provide an estimated reading for the transfer date (the SAR Avoidance Process), and various other proposals to improve this aspect of the transfer process were put forward.
- 1.17 Responses to both questionnaires indicated that the current procedures for handling disputes about CoS meter readings were not fit for purpose and often confusing to customers. It was suggested that these procedures should be made mandatory parts of the mainstream transfer processes and that the processes would be significantly improved if all parties adhered to defined response timescales. Some respondents considered that the current defined timescales were too lenient.

### ***Process Failures & Performance Monitoring***

- 1.18 Respondents clearly felt that the current transfer processes involved too many exceptions, such as agreed/disputed reads and erroneous transfers, and that the workarounds devised to deal with exceptions were inadequate and not adhered to sufficiently. Several parties felt that erroneous transfers and agreed / disputed reads should no longer be considered as exceptions but were part of the current mainstream transfer activity. As such, consideration should be given to including these in the standard industry agreements and data communications. Standardisation was thought to be of benefit in reducing costs.

- 1.19 Customer representatives felt that when problems arose with a customer's transfer, suppliers did not deal with these well and were not good at explaining the issues to customers or communicating between themselves to resolve the problems.
- 1.20 There was general support for greater access to information on supplier identity, by both customers and the industry. Respondents believed that suppliers should receive automatic notification as part of the transfer process. This was thought to facilitate quicker resolution of problems that arose.
- 1.21 One of the key issues identified was how to ensure that participants adhered to the industry agreed rules. Several respondents felt that significant improvements could be delivered if all players performed to the levels required by industry agreements. Others felt that systems and procedures had been shown not to work and therefore required fundamental change.
- 1.22 The industry participants felt that there was not a significant role for the regulator in setting, monitoring and publishing performance standards over and above the minimum licence requirements. Some also noted that Ofgem does not have powers to require key players, such as metering agents, to provide information on performance achieved. However, customer groups felt that this was an important way of driving up standards, as it was evident that many aspects of the transfer process were failing both suppliers and customers.

### ***Governance***

- 1.23 One of the main obstacles to further alignment between the gas and electricity industries was felt to be the requirement to co-ordinate the separate governance regimes.
- 1.24 In general, respondents felt that the existing governance arrangements were not fully fit for purpose to deal with the resolution of existing problems, and were less likely to be able to handle fundamental change.

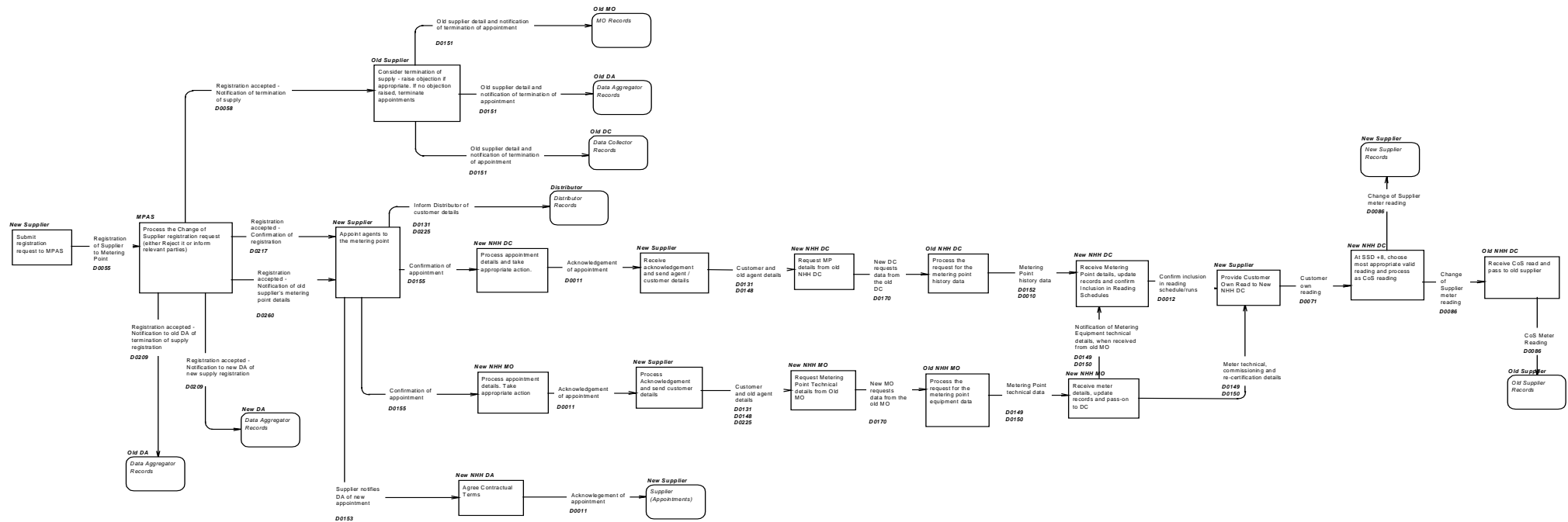
## *Changing*

- 1.25 Industry participants noted that there were costs involved in changing systems for transferring customers but that there were also costs associated with not changing current operations, as they incurred significant volumes of exceptions.
- 1.26 Several parties felt that significant improvements could be delivered through better use of the existing systems. However, others felt that the existing market infrastructure had not been able to deliver an efficient low-cost transfer process, and that industry participants' ability to operate better with existing systems and protocols was limited. Several parties commented that the only way to drive down costs and improve service was through the introduction of significantly revised systems, seeking to engineer out many of the current shortcomings.
- 1.27 Several interesting proposals for amending the transfer process were made. These included:
- ◆ On-line registrations such that exceptions were highlighted more quickly;
  - ◆ Only registering the customer once all of the transfer data had been collated by the supplier, so that change of supply was not delayed by process failures further down the line;
  - ◆ Improving the ability of suppliers to obtain data, for example by giving them on-line access rather than sending batch files and waiting for a response within a defined timescale.
- 1.28 Some respondents felt that the way forward was for there to be a two-tier or parallel approach allowing those who wanted to progress to the improved systems and practices to do so, whilst those players who did not, would be able to operate using the existing protocols and systems.
- 1.29 A full report on the responses to the two questionnaires is available on the Ofgem website.

## Appendix 2 : Customer Transfer Process Maps

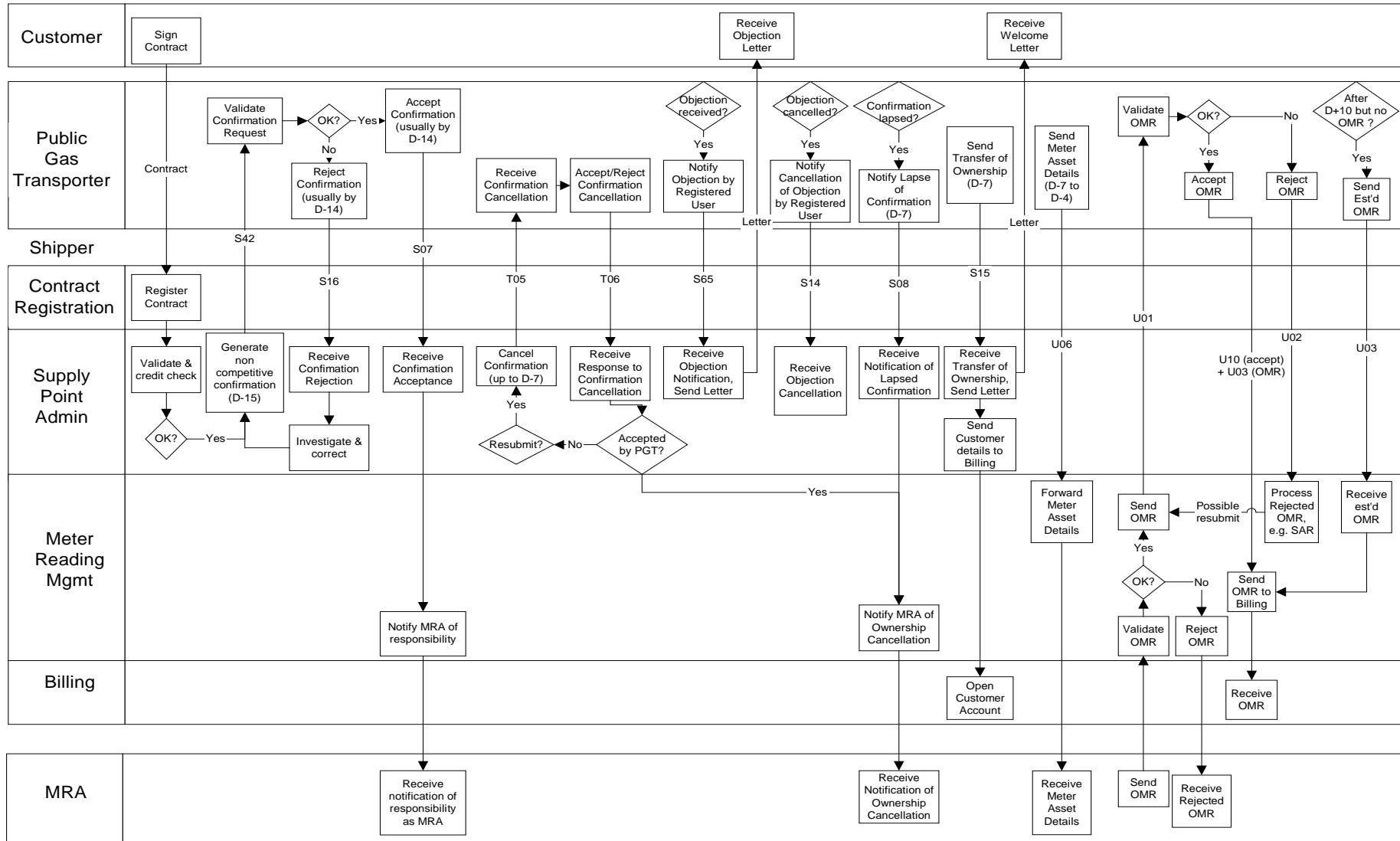
2.1 This appendix contains process maps that describe processes associated with the transfer of customers at sites connected to:

- Electricity distribution networks.
- Public Gas Transporter networks.



Domestic Confirmations & Transfers - including Unbundled OMR (overview)

Transco process



Domestic Involuntary Withdrawal & Transfer - including Unbundled CMR (overview)

Transco process

