

**Proposed debt assignment protocol for  
prepayment customers**

**A consultation document**

## Summary

Ofgem is committed to removing any unnecessary barriers preventing customers from switching suppliers. This document reports on an industry trial, mounted between 1 December 2001 and 28 February 2002, of a new debt assignment process, and sets out proposals for a protocol, developed from the trial, which domestic gas and electricity suppliers would operate on a permanent basis. The protocol will enable many prepayment meter customers, whose transfer to another supplier would normally be blocked, to move to a new supplier, taking their debt with them.

The trial was developed and operated by a Working Group, comprising the major domestic retail suppliers, and supported by Ofgem. The trial highlighted a number of issues with the transfer process surrounding data privacy, communications and debt volumes. On data privacy, some confusion resulted from the need to obtain customer consent to debt details being passed from the old to the new supplier. Consent is required to satisfy the requirements of the Data Protection Act 1998 (DPA). Suppliers concluded that while the trial principles were valid, the process should be simplified.

The protocol takes account of the trial's findings. Prepayment customers in debt who seek to transfer will in future receive a letter clearly explaining the option of assignment. Transfers will not take place until the customer and the acquiring supplier agree. Debts will be factored to give an incentive to the acquiring supplier.

Ofgem welcomes the proposed protocol. In order to give this effect, modifications need to be made to the Standard Conditions of the Gas Suppliers' Licence, and changes are required to the Master Registration Agreement in Electricity. Subject to views on this document, Ofgem anticipates that formal proposals for these changes will follow around the end of this year, and that, provided these are agreed, the protocol should come into operation in the second quarter of 2003. The Working Group has proposed a £100 threshold as the level up to which debts will normally be accepted by acquiring suppliers, with some companies offering to accept higher amounts. Ofgem will monitor the operation of the protocol, and will keep the results under review.

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# 1. Rationale

- 1.1. Gas and electricity supply companies are entitled to block customers in debt from transferring to other suppliers. These so-called 'debt blocking' rules were originally put in place to reduce the risk of customers not paying their debts to their supplier. However, debt blocking reduces these customers' access to competition; this can be particularly hard on poorer customers who stand to benefit most from lower prices from competing suppliers.
- 1.2. During the 12 months to 31 August 2002, a total of 1.4 million electricity and gas customers were blocked from switching to a new supplier on grounds of debt. Prepayment meter customers account for some 70% of customers in debt.

## *Options for reforming debt blocking*

- 1.3. During the past three years Ofgem has considered various approaches to reforming the debt blocking rules. None of these has found favour with gas and electricity suppliers. Ofgem's original approach, part of the Social Action Plan and consulted on in 1999, was the outright abolition of the debt blocking rules. However, suppliers opposed this approach, stressing the large amounts of money owing to them, and pointing to the danger of customers 'debt hopping'.
- 1.4. Subsequently, in May 2000, Ofgem proposed a more limited option which would have reduced suppliers' exposure. This approach was also rejected by suppliers who favoured an industry trial to test the potential for transferring customers in debt before regulatory changes were made.
- 1.5. Early in 2001 the major suppliers set up a Working Group under the chairmanship of British Gas to take this suggestion forward. Ofgem has been working with the Group to develop a practical solution which reasonably protects companies' legitimate commercial interests in recovering their debts, but yet promotes wider switching for customers in debt.
- 1.6. As part of this, the major suppliers took part in an industry trial between 1 December 2001 and 28 February 2002. The trial covered prepayment meter customers. The results of the trial were evaluated, and the group has now developed a protocol as a basis on which suppliers can transfer prepayment

meter customers in debt on a permanent basis. Ofgem has supported the development of this protocol as a sensible way to move forward. This document sets out the experience of the trial, as well as the resulting protocol.

- 1.7. There will be costs for suppliers in implementing the protocol, in terms both of set up costs and ongoing operation. Experience with the trial has enabled the Working Group to refine the protocol, so removing unnecessary effort and costs. Suppliers should have sufficient time to develop systems to comply with it. Ofgem considers that the benefits to consumers outweigh the costs of implementing the protocol.

## ***Procedure***

- 1.8. In order to give the protocol legal backing, changes will be needed to the Master Registration Agreement (MRA) in Electricity and to the Standard Conditions of the Gas Suppliers' licence. Changes to the MRA, which have to be initiated by an electricity supplier, will need to be run in parallel with modifications to the gas licence.

## ***Timetable***

- 1.9. Views on the trial, the proposed protocol and regulatory changes described in this document should be sent to Ofgem by 11 December 2002. These should be addressed to:

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Head of Social Issues  
Ofgem  
9 Millbank  
London, SW1P 3GE  
[david.barnes@ofgem.gov.uk](mailto:david.barnes@ofgem.gov.uk)

- 1.10. All responses will normally be published on the Ofgem website and held electronically in the Research and Information Centre unless there are good reasons why they must remain confidential. Consultees should try to put any confidential material to appendices in their responses. Ofgem prefers to receive responses in an electronic form so they can easily be placed on the Ofgem website.

- 1.11. Subject to the views received, Ofgem intends to make formal proposals for changes in the gas licence around the end of this year. It is expected that formal proposals for amending the MRA will be made around the same time, for consideration by the MRA Development Board. Subject to satisfactory progress, Ofgem anticipates that the protocol should come into operation in the second quarter of 2003. Ofgem will monitor the experience with the protocol, and will review the number of transfers effected as a result of it.

## ***Background***

- 1.12. According to data collected by Ofgem, at the end of June 2002 917,300 electricity and 1,358,700 gas customers were repaying debts. Of these, 613,900 and 916,600 respectively were prepayment meter customers.
- 1.13. Electricity and gas suppliers can object to the transfer of customers to other suppliers on grounds of unpaid debt, provided the debt has been outstanding for more than 28 days after a written demand for payment has been made. For gas, these arrangements are set out in Condition 30 of the Standard Conditions of the Gas Suppliers' Licence. There is no directly comparable licence condition relating to objection for electricity, but similar arrangements to gas are included in Clause 16 of the Master Registration Agreement (MRA) between electricity companies. Further information on these arrangements can be found in Ofgem's document, 'Customers in debt and their access to the competitive market', which was published in December 1999.
- 1.14. The proposals in this document stem from the initiative of major retail suppliers, following the decision early in 2001 to establish an industry Working Group under the chairmanship of British Gas to examine options for reform of debt blocking. The terms of reference for the Group were as follows:

"to review the principles of debt blocking and assignment for domestic gas and electricity customers, giving consideration to a range of proposals for solutions that will allow customers in debt to transfer supplier."

- 1.15. The Group decided to mount a trial to test a new process of debt assignment for prepayment meter customers. This test ran for three months between 1

December 2001 and 28 February 2002. Following completion of the testing,

the Group evaluated the trial results to establish the effectiveness of the process and whether it could be improved. This work has resulted in the development of a debt assignment protocol, which is described in this document, together with proposed regulatory changes to support it.

## 2. The Trial

- 2.1. All the major suppliers participated in the trial, these being British Gas, Npower, Powergen, London Electricity / SWEB, Scottish and Southern, Scottish Power, SEEBOARD and TXU.
- 2.2. At an early stage in discussions leading up to the trial, suppliers recognised that simply testing the robustness of a series of debt assignment processes would not automatically constitute a satisfactory basis for moving forward. Suppliers therefore considered that sensible decisions could only be taken following a more fundamental evaluation of the viability of debt assignment, both from a supplier's commercial perspective as well as from the consumers' standpoint. Key outputs from the trial therefore needed to include how efficient the process was to operate and whether consumers benefited.
- 2.3. Suppliers adopted the following key principles for the trial:
  - ◆ debts should be 'assigned', the acquiring supplier taking over responsibility from the outgoing supplier for recovery of the debt through the prepayment meter, from the date of the customer's transfer,
  - ◆ a 'pretransfer protocol' should be adopted, to ensure that transfers do not take place until the customer and the acquiring supplier agree that the debt should be assigned, and
  - ◆ the debt should be factored to give an incentive to the acquiring supplier, with a standard approach of 90 per cent factor agreed for the trial. Under this approach, the new supplier pays the old supplier for the debt less a 10% discount, but the customer's liability remains the full amount.

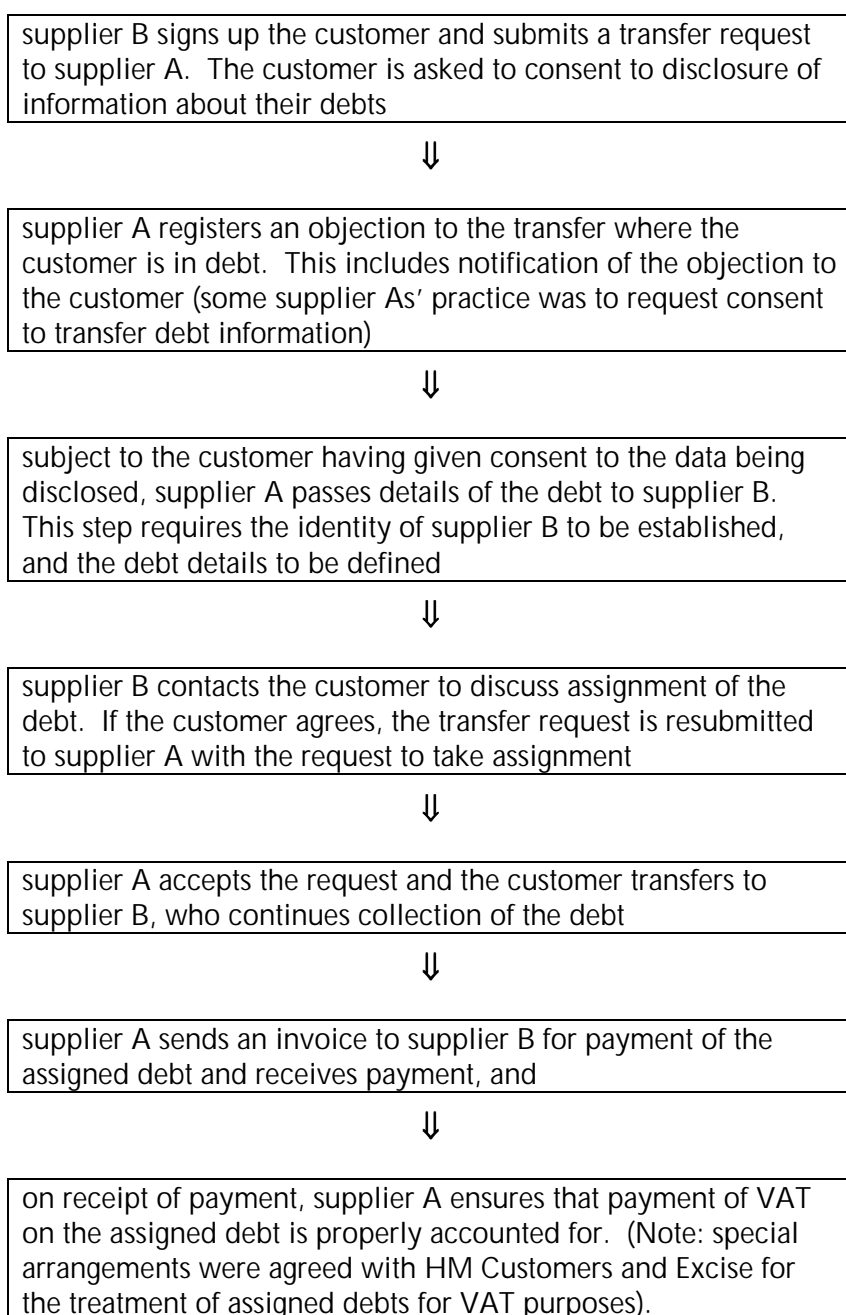
### *Trial process*

- 2.4. The Working Group established a technical sub-group with the remit of translating the above principles into a practical process which suppliers could test. This group started work in August 2001, under the chairmanship of Powergen. Following agreement on the process, individual suppliers constructed systems for use in the trial. Within each company, specific teams or



individuals took responsibility for operating these and monitoring and reporting on progress.

- 2.5. The trial process was designed to cause as little disruption as possible to the existing customer transfer process, which is highly automated. The process involved passing debt information between the original and the potential new supplier, and obtaining the customer's agreement to proceed with assignment. The main steps used in the trial are shown below (for the purposes of this document the acquiring supplier is 'supplier B' and the original supplier is 'supplier A'.):



## ***Trial experience***

- 2.6. 2,858 customers transferred using the above process during the trial, out of a total of 61,138 who were blocked for debt during the trial period. Several important issues were identified.

### ***(i) Data protection***

- 2.7. One of the most significant issues with the trial was the impact of the Data Protection Act (DPA). Fundamental to the process is that supplier A needs to disclose to supplier B the amount of the customer's debt. The Information Commissioner was asked for advice on compliance with the Data Protection Act 1998. The Commissioner's office advised that customers need to provide positive consent to the disclosure of details of their debts, and the process of obtaining this should be clear and transparent to the customer. The Commissioner was not prescriptive on where responsibility for obtaining consent must lie, but it is clear that where supplier A (original supplier) relies on supplier B (acquiring supplier) to obtain this, supplier A is entitled to an assurance that consent has been properly obtained.
- 2.8. The two different approaches to obtaining consent adopted for the trial were:
- (i) a prominent statement on or with supplier B's contract, requesting the customer's consent to data disclosure: this needs to be reinforced by a clear explanation from the salesperson at the time of signature to the contract, and
  - (ii) a letter from supplier A at the time of objection.
- 2.9. The use of two approaches to obtaining consent, and lack of clarity over why consent was needed, undoubtedly led to some confusion on the part of consumers and reluctance to proceed with assignment. While the objective was to make the process as smooth as possible for the consumer, in practice this was not the case.

## ***(ii) Communications between suppliers***

- 2.10. Some difficulties arose in the transfer of information between suppliers which slowed down the process and led to errors. In initiating the process, it was necessary for supplier A to establish the identity of supplier B in order to know where to send debt information. The transfer arrangements in electricity provide for the identity of the new supplier to be given at the time of transfer request, but in gas the identity of the incoming supplier was not available at this stage. It follows acceptance of transfer. This therefore required an exchange of information through Transco. In the early stages of the trial a high proportion of these data flows were not efficiently picked up by suppliers, resulting in delay and some failure to move to the next stage.
- 2.11. Difficulties arose in formatting data where incorrect or incomplete data was used, which again slowed down the process. Most of these issues arose in the first month of the trial and were addressed while the trial continued. The systems used for the trial were stretched by the amount of data needed to operate the process efficiently. In those cases where the customer had no interest in pursuing the assignment, the effort in generating data in the early stages of the process was wasted.

## ***(iii) Debt volumes***

- 2.12. The trial provided for the identification of debts which were regarded as 'complex' because they are either not well defined or in dispute. Experience with the trial suggests that 39% of debts were unsuitable for assignment because of problems with the payment card eg, misdirected payments, or the debt was not set on the meter or in dispute. 18% of debts were due to be repaid over a period longer than 52 weeks, and most new suppliers decided not to progress these. This experience suggested that the process should include some common criteria about dealing with such debts, and resolving disputes.

## ***Customer experience***

- 2.13. A selection of consumers were surveyed by telephone to understand why they did not respond positively to the opportunity to switch supplier and have their debt assigned. The main findings of the survey of consumers were that:

- ◆ some did not understand what the transfer would involve
- ◆ some were unhappy about the disclosure of debt and payment information to a new supplier. Some may have assumed they would no longer be responsible for their debt once they had transferred , and
- ◆ some said that they would prefer to pay off their debt and then transfer to a new supplier, rather than have debt assigned.

### ***Issues requiring improvements***

2.14. The Working Group concluded that, while the trial principles remain valid, and the process was successful in allowing some consumers to transfer, it needed to be simplified to allow consumers genuinely wanting to pursue the option of assignment to do so. The Group identified the following issues as needing attention:

- ◆ the split of responsibilities between supplier A and B needed to be better defined
- ◆ a single approach to data protection, consistent with the DPA, needed to be defined and agreed
- ◆ the options needed to be more clearly communicated to the consumer, and
- ◆ data transfer needed to be simplified and unnecessary effort and costs on supplier A in particular should be reduced.

### ***Simplified assignment process and the protocol***

2.15. Taking account of these issues, the Working Group has now designed a simplified process, the main feature of which is a letter to the customer, clearly setting out the options. The main steps in this new process are as follows:

[Note: 'Supplier B' is the acquiring supplier and 'supplier A' is the original supplier.]

Step one ↓	Supplier B signs up the customer.
Step two ↓	Supplier A blocks for debt and writes to the customer advising that there are three options: <ul style="list-style-type: none"> <li>◆ do nothing and stay</li> <li>◆ pay debt and go, or</li> <li>◆ talk to supplier B about assignment</li> </ul>
Step three ↓	Assuming assignment option is attractive, the customer talks to supplier B, who obtains the customer's consent to seek debt details from supplier A.
Step four ↓	Supplier B obtains debt details from supplier A, and considers whether to proceed. Where assignment cannot proceed, efforts are made to resolve the issue.
Step five ↓	If debt assignment is agreed with the customer, supplier B resubmits the transfer request to supplier A confirming debt can be assigned.
Step six ↓	The customer transfers. Debt remains on the prepayment meter, to be collected by supplier B.
Step seven	Supplier A sends supplier B an invoice for settlement of the debt.

2.16. The Working Group has now developed a protocol, converting the steps outlined above into a detailed working practice for the industry. The protocol covers:

- ◆ arrangements for communication throughout the process
- ◆ arrangements for ensuring transfers do not take place until assignment is agreed
- ◆ treatment of complex cases, e.g. debts that are in dispute
- ◆ debt factoring - the standard industry approach is 90%, as used for the trial
- ◆ compliance with the Data Protection Act 1998 (DPA), to ensure that debt information is not disclosed unless the customer consents
- ◆ arrangements for accounting for VAT, as agreed with HM Customs and Excise, and

- ◆ arrangements for supplier-to-supplier invoicing and payments.

2.17. Suppliers will need to develop robust systems to comply with the protocol. The costs of implementation will vary depending on the size and nature of individual suppliers' IT systems. Where volumes are low, the process could be operated manually without the need for automation. The protocol, including the full process flowchart and dataflows technical specification, is available on <http://www.ofgem.gov.uk/public/pub2002.htm>

## 3. Next steps

- 3.1. Ofgem welcomes the progress that has been made by the Working Group and the associated Technical Group in devising and operating the trial, and in developing a more robust transfer process based on the experience that was gained. The next step is to make this process permanent, through adoption of the protocol described in the previous chapter, as a standard industry process. Steps were taken by the Working Group to share the results of the trial with smaller suppliers that did not participate. Successful implementation of the protocol will depend on the extent to which they, together with the bigger suppliers, are willing to support it.

### *Regulatory changes*

- 3.2. As soon as Ofgem is able to proceed with collective licence modifications, it intends to publish proposals for making the protocol a licence requirement for domestic gas suppliers. A statutory instrument containing orders under the Electricity and Gas Acts, prescribing voting thresholds, is expected to be laid before Parliament soon<sup>1</sup>. The thresholds are expected to be a minimum level of agreement to a modification of 80 per cent measured by licence holders and market share. A draft modification to the Standard Conditions of the Gas Suppliers' licence is included as Appendix 1 to this document, on which comments are invited.
- 3.3. In order to give the protocol legal backing in electricity, amendments need to be made to the Master Registration Agreement (MRA), which sets out rules for customer transfers in the electricity market. Amendments to the MRA must be initiated by a supplier. Ofgem anticipates this initiative will be taken by a supplier on the Working Group. A summary of the changes needed to the MRA, prepared by Gemserv the MRA service provider, is included as Appendix 2.
- 3.4. Once the necessary amendments are in place, suppliers will not be able to block the transfer of customers where, in accordance with the protocol, the acquiring supplier accepts assignment of the customer's debt. In order to avoid the

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<sup>1</sup> These orders will be introduced by Section 35 and 82 of the Utilities Act 2000

multiple transfer of customer debts, the amendments will also give the acquiring supplier the right to object to the customer transferring again until the assigned debt has been paid.

- 3.5. Operation of the protocol will require systems changes to be introduced by suppliers which will need to operate efficiently. The Working Group anticipates that these changes will take several months to complete. Accordingly, Ofgem anticipates that the protocol should come into operation in the second quarter of 2003, subject to industry agreement to the licence and MRA changes.

### ***Debt thresholds***

- 3.6. Ofgem has discussed with the Working Group the extent to which individual suppliers should be committed to accepting customers with their debts. Ofgem wishes prepayment meter customers to have reasonable assurance that, if they wish, they will be able to switch to a new supplier and take their debt with them.
- 3.7. The Working Group does not believe that it is appropriate for it to be a mandatory licence requirement for suppliers to have to accept customers in debt. Members have argued that in a competitive market suppliers must have the flexibility to differentiate their service offerings, and to exercise discretion over their debt policies. The Working Group has agreed on a £100 threshold as the level up to which debts will normally be accepted, which most suppliers on the Group have endorsed as company policy. Some suppliers have said that they are willing to accept debts up to £150.
- 3.8. Rather than debate the nature of a debt assignment threshold, Ofgem considers that the priority is to get the protocol into operation as quickly as possible, in order that prepayment meter customers in debt can benefit without further delay. Ofgem urges all domestic suppliers to recognise a threshold of at least £100 and to state publicly that they will do so.



## ***Monitoring and review***

- 3.9. Ofgem will monitor how the protocol operates in providing customers in debt the opportunity to transfer to a new supplier, if they wish to do so. Ofgem will collect statistics on the numbers of customers blocked for debt, the numbers of customers transferring with their debts and the size of debts. Ofgem will also use complaints data from energywatch as a further means of keeping the effectiveness of the protocol under review.

# Appendix 1

## *Draft modification to Standard Conditions of the Gas Suppliers' Licence*

The proposed modification below is for insertion into Section C of the Standard Conditions of the Gas Suppliers' Licence. Paragraphs 1 and 2 of the proposed modification bring into the scope of Section C of the Licence, which concerns Domestic Supply Obligations, objections for debt for prepayment meter customers. Paragraph 3 prevents objection where the customer and the acquiring supplier agree to debt assignment. Paragraph 4 provides that the process of assignment shall be in accordance with a protocol, which is to be approved by Ofgem. Paragraph 5 gives the acquiring supplier the right to object to the customer switching again until the assigned debt has been paid.

### *Proposed Modification:-*

1. Where paragraph 2 of this Condition applies, Condition 30 shall not apply.
2. Subject to paragraphs 3 and 4, the licensee shall not procure or permit the relevant shipper, in pursuance of any contract with that shipper, or otherwise request it, to prevent a proposed supplier transfer in relation to any premises at which the licensee supplies gas to a domestic customer through a prepayment meter except for so long as –
  - a The customer fails to pay charges for the supply of gas to those premises or any premises previously owned or occupied by him in respect of which such charges are payable which -
    - (i) are due to the licensee and have been demanded in writing; and
    - (ii) have remained unpaid for 28 days after the making of the demand.
3. Notwithstanding anything in paragraph 2 or 5, the licensee shall not procure or permit the relevant shipper, or otherwise request it, to prevent a proposed supplier transfer in relation to any premises at which the licensee supplies gas to a domestic

customer as long as the customer and the other supplier agree to the assignment of the charges which remain outstanding to the licensee.

4. For the purposes of paragraph 3, the arrangements for assignment of the charges shall be made in accordance with a Protocol, the terms of which shall be prepared by the licensee and submitted to the Authority for its approval within two months after this condition comes into force. The Protocol shall not be amended without the approval of the Authority.
5. Where the licensee commences the supply of gas to a domestic customer pursuant to the provisions of paragraphs 3 and 4 of this Condition, the licensee may procure or permit the relevant shipper, or otherwise request it to prevent a proposed supplier transfer in relation to any premises at which the licensee supplies gas to the domestic customer through a prepayment meter for so long as the amount assigned or to be assigned by the licensee to the first supplier has not been recovered by the licensee from the domestic customer.

## Appendix 2

### *High level synopsis of the impact of debt assignment on the Master Registration Agreement and related products.*

1. The Master Registration Agreement (MRA) is an agreement between electricity distribution companies and electricity suppliers for the provision of metering point administration services. It is provided for in Condition 37 of the Electricity Distribution Licence. The MRA comprises provisions to facilitate changes of electricity supplier in relation to any premises, and related procedures and practices to be followed by electricity suppliers.
2. Implementation of the debt assignment procedure requires efficient communication between suppliers, and this is most easily and robustly achieved through the standard industry governance arrangements in the MRA. An initial review by Genserv indicates that incorporation into the MRA would be best achieved through the development of an MRA Agreed Procedure (MAP), based on the protocol document, which will set out the procedures under which suppliers provide and receive information on debt assignment. The MAP would be provided for in the MRA under a new clause under Part V, 'Other change of supplier services'.
3. There will also be requirements for the losing supplier either not to raise or to withdraw an objection to re-registration consequent upon agreement to debt assignment, and to enable a supplier to object to a subsequent change of supplier where a customer is repaying an outstanding debt under debt assignment. These will require updates to the reasons for objection under Clause 16, 'Procedure for objection by old supplier' of the MRA.
4. As it is envisaged that the procedure will apply only to prepayment meter customers at this time there may also be a requirement to define 'prepayment meters' in the MRA. The information exchanges to notify, acknowledge and confirm the debt assignment may need to be added as 'D' flows to the Data Transfer Catalogue (DTC). The DTC provides a logical definition of the data flows and items used to communicate information between industry participants to support competitive trading in the electricity market.

# Appendix 3

## *List of consultees*

1. The following organisations have been invited to comment on this document:

◆ domestic customer representatives:

Age Concern  
Consumers Association  
energywatch  
Energy Action Scotland  
National Consumer Council  
National Energy Action  
National Association of Citizens Advice Bureau  
National Right to Fuel Campaign  
Public Utilities Access Forum

◆ gas and electricity industry

domestic suppliers  
electricity distributors  
Electricity Association  
EA Fuel Poverty Task Force  
Gas Forum  
Transco

◆ relevant Government bodies

DTI  
Scottish and Welsh Assemblies  
Fuel Poverty Advisory Group  
Trade and Industry Select Committee