

CoS Options Analysis – billing arrangements during the transfer process

1. High level objective

- 1.01 For customers, switching supplier is not fully complete until they have received an accurate final bill from their old supplier and their new account has been set up with their new supplier. Our high level objective in this work area is to ensure that these opening and closing billing arrangements support a fast, reliable and cost effective switching experience from the customers' perspective.
- 1.02 This paper considers whether the existing billing arrangements are detracting from a fast, reliable and cost effective change of supplier process. Where problems are identified, we would like to explore with COSEG their root causes and in particular whether they are caused by the existing system design and constraints or supplier behaviour and working practices. We would also like to understand the extent to which there are benefits in pursuing additional reforms over and above the expected benefits that are expected from the roll of smart metering.

2. Existing rules for billing in the CoS process

- 2.01 Both the Electricity Supply Licence and the Gas Supply Licence impose equivalent obligations on licensees in respect of the provision of final bills to domestic customers. Condition 27.17 of each licence requires a licensee to take all reasonable steps to send a final bill to a domestic customer within six weeks of a supplier transfer. Specifically, the condition states:

27.17 Where the responsibility for the supply of the electricity to a Domestic Customer transfers from the licensee to another...[Electricity/Gas]...Supplier or otherwise terminates, the licensee must take all reasonable steps to send a final Bill or statement of account of the Domestic Customer's account within 6 weeks of the supplier transfer or termination of the Domestic Supply Contract.

- 2.02 We requested data from suppliers on the average number of final bills issued within this 6 week timeframe. Evidence provided to date indicates that this target is being met most instances.

- 2.03 Condition 27.18 further requires that:

27.18 Where subsequent information becomes available to correct an error in the final Bill or statement of account issued pursuant to paragraph 27.17, the licensee shall send a corrected Bill or statement of account as soon as reasonably practicable after the subsequent information become available.

- 2.04 In addition to the above licence conditions, five of the six largest energy suppliers have signed up to the [Code of Practice for Accurate Bills](#) (the Code). This is a voluntary Code that is managed by Energy UK.

- 2.05 The Code contains a set of commitments that members have agreed as a minimum standard of services to domestic customers. There are three commitments in Section 1 of the Code ("Joining, leaving or moving") that are of particular relevance to billing during the transfer process, these being:

- (1) Suppliers will work with customers to make sure accurate information is recorded and transfers between suppliers are smooth.*
- (2) Suppliers will offer a range of options to make sure they obtain and record the most up to date and accurate meter reading.*

(3) Suppliers will use all available information to produce accurate, clear and timely bills.

2.06 The Code also makes it clear that on the opening or closing of an account, the old and new supplier are responsible for agreeing the meter reading at the time of transfer.¹

2.07 The one supplier, SSE, who has not signed up to this Code does have its own Customer Charter. This charter contains standards in respect of billing arrangements when the customer is leaving or joining SSE. In particular, where the customer is leaving SSE the following commitments are made:

(1) We will work with your new company to ensure the transfer of your energy...accounts goes smoothly.

(2) We will produce your final bill promptly – usually within 10 working days...and never more than 30 days...

2.08 Non-domestic customers must agree their billing arrangements directly with their supplier.

3. Scope of the problem

3.01 Recent research undertaken by [Consumer Focus](#)² on energy switching rates in the UK noted that of those who had switched or had tried to switch, 13% experienced a problem during the switching process. Just under half of those reported problems related to issues with their closing bill from their old supplier.

3.02 The Consumer Focus report does not go into the details of the issues were that customers reported experiencing with their closing bill from their old supplier.

Insight from domestic consumers

3.03 We have commissioned research into the issues domestic consumers expect to experience with billing during the change of supplier process. The draft research report produced by Ipos MORI³ suggests that financial impacts was the mostly widely held immediate concern by domestic consumers on problems they thought could arise during the change of supply process. Namely, participants thought that they would incur a cost as a result of double billing and erroneous charges, which they feared would take a long time to resolve.

3.04 According to the draft Ipos MORI research report, in considering what could go wrong with the change of supplier participants raised three areas that relate to billing, these being:

- (i) Erroneous meter reads;
- (ii) Resolving billing errors; and
- (iii) The timing of the final bill.

Erroneous meter reads

3.05 Though generally not speaking from experience, some participants had concerns about erroneous meter readings. Specifically, they were worried about receiving a bigger than expected final bill (from their old supplier) and opening bill (from their new supplier).

3.06 Ofgem collects some data on disputed meter reads. Data for domestic gas disputed reads published last year indicated that around 7-15% of transfers had a disputed read during the period January

¹ Condition 1.2, Code of Practice for Accurate Bills (Energy UK).

² The report was published in January 2013 and data covered the 12 months ending 31 March 2012.

³ Please note that this report has not yet been published but we expect for it to be published in due course and final findings will be used to support the CoS project.

2010 to December 2011.⁴ Disputed reads require both suppliers to agree a new read for the customers' bill. This can take time and effort to resolve and can delay the customer's opening and closing bills.

3.07 We note that the roll-out of smart metering may alleviate these concerns – see section 4 below.

Resolving billing errors

3.08 Customer concern on resolving billing errors related to the input required in dealing with inaccurate final bills. Participants believed it would require a lot of input (e.g. speaking with two suppliers at once) to get errors resolved.

3.09 In terms of suppliers obligations in respect of dealing with erroneous meter reads we note that all suppliers must adhere to licence condition 27.18 which stipulates that once an error has been corrected in a final bill it must be reissued as soon as is reasonably practicable, and most of the larger suppliers have signed up to similar commitments in the Code for Accurate Billing. We note that these measures have not removed some customers' perceived concerns on the impact of billing errors.

3.10 We note that the roll-out of smart metering may alleviate these concerns – see section 4 below.

Timing of the final bill

3.11 The third area of concern for domestic customers is on the timing of the final bill. This was a significant worry for some participants who were concerned about getting a final bill from their old supplier just as their direct debit started with their new supplier. These participants were worried that this would result in a particularly high energy bill in the first month which they feared might be unmanageable. Some took this concern about costs even further, suggesting it could result in accruing bank overdraft charges as well.

3.12 While we have noted earlier that evidence provided to date shows that suppliers are issuing most of their final bills within the 6 week timeframe as per their licence condition, consumers still have concerns about the perceived financial risks in this area. We note that this issue relates to the timing of the opening bill as well as the final bill. For example, if a customer is monthly billed then they may get their opening and final bill at the same time if the old supplier send the final bill at 6 weeks.

Insight from non-domestic consumers

3.13 We are currently undertaking some research to gain insights from non-domestic customers on the change of supplier process and this has included asking some questions around current billing arrangements. Our initial reading of the views presented suggest that, in addition to this being an issue for domestic consumers, some non-domestic customers have experienced problems in getting credit balances on closing accounts refunded. They were also very concerned about the cash flow and accounting implications of bills being delayed. In particular, concerns were raised about delayed large opening bills as well as receiving final bills together with opening bills.

4. Root causes and potential impacts of smart metering

4.01 In the electricity and gas markets, the responsibility for taking the CoS meter read for the transfer is on the gaining supplier.

- In the electricity market, the gaining supplier will contact the customer to require a meter reading or arrange for the meter to be read by an agent. If no read is available, the gaining supplier's data collector 'deems' a read using a defined process set out in the Balancing and Settlement Code and supported by the centrally-provided EAC/AA software. The gaining

⁴ Disputed meter read rates in domestic gas market between January 2010 and December 2011. (Source: Big Six suppliers).

supplier's data collector will then process the meter read and update the supplier's system and MPAS. This reading will be used as the closing reading on the customer's account with the losing supplier and as the opening reading with the gaining supplier.

- In the gas market, the gaining supplier will contact the customer to require a meter reading or arrange for the meter to be read by an agent. Readings should be submitted to Xoserve, which will validate the reading and, if acceptable, send it back to the new supplier and on to the old supplier. If Xoserve has not received an acceptable reading by the 10th working day after the transfer, its systems will provide an estimated meter reading, which will be transmitted to both suppliers (via the shipper) by D +15 after the transfer date. This is used as the closing read for the losing supplier and the opening read for the new supplier.
- 4.02 Smart meters will allow for more accurate meter reads and suppliers will be able to directly access the actual meter read on a change of supplier.
- 4.03 This means that smart meters may be able to significantly reduce consumer concerns around (i) erroneous meter reads in opening and closing bills and (ii) resolving billing errors, and we would like to review this assumption with COSEG.
- 4.04 Smart meters may also be able to help to alleviate consumer concerns around the timing of opening and closing bills given that the suppliers will have direct access to the meter read. We would like to explore with COSEG whether:
- Electricity and/or gas supplier will be able to issue a closing bill to customers in a faster time period than the current practice.
 - The gaining supplier, who will be able to directly access the smart meter, would be able to commit to issuing an opening bill within a reasonable timeframe.
 - Existing system design in the gas market related to the meter read submission timescales and validation Xoserve will constrain suppliers' ability to issue opening and final bills quickly.
- 4.05 In relation to the concerns expressed on the repayment of credits, we note that smart metering can reduce/remove the need for estimated billing which could play a significant role in reducing customer credit balances. This may have a positive impact on reducing the existing issues that customers are experiencing with getting these credit balances refunded.

5. Possible options for reform

- 5.01 The roll-out of smart metering is likely to have a positive impact on billing arrangements and could go a significant way towards alleviating customers' concerns about billing during the change of supplier process. We are also currently exploring with COSEG a series of reform options for the electricity metering market that, if implemented, may reduce any delays that suppliers face in obtaining the data that they require to be able to bill customers.
- 5.02 We would, however, like to explore with COSEG whether any further measures are required to ensure a fast, reliable and cost effective change of supplier process from a customer perspective.

5.1.2 Option 1: Removing system constraints – (Gas only) Amend timescales for COS meter read submission and validation

- 5.03 As noted above, under the current UNC requirements, the old and new supplier will find out the COS meter read 15WD after the transfer date. This timescale allows 10WD after the transfer date for any COS reads to be submitted and a further 5WD for central systems to validate the read or provide an estimate.

5.04 Where a smart meter is in place, the new supplier is likely to be able to obtain and send a meter read to central systems very quickly in the majority of cases. We would like to explore the potential for early submission of meter reads to be processed more quickly and provided to the old and new supplier in advance of the current 15WD target. For example, a timescale for processing could be linked to when the meter read was submitted by the new supplier rather than being linked to the transfer date. Such a measure could allow opening and final bills to be issued more quickly in the gas market

5.1.3 Option 2: Removing system constraints – Allow the losing supplier to obtain the closing read directly from a smart meter

5.05 Currently, the incoming is required to take a meter read within a set timeframe or an estimate is deemed. This actual or deemed read is then passed to the old supplier to allow it to generate a closing bill.

5.06 Smart meters would allow the old supplier to obtain a closing meter read directly from the meter so that, subject to any validation rules, it could more quickly provide a closing bill to the customer. Arrangements would need to be put in place to ensure that a customer was not billed twice for any energy consumed. We understand that reforms are being considered by some parties to allow the old supplier to take a change of supply meter read for its own billing and settlement purposes.

Option 3a: Improving standards - industry self governance

5.07 To recognise the impact of the timing of the opening and closing bill on customers experience of the switching process and their perception of financial risk, industry could set out additional commitments. These could build on existing codes of practice and include:

- Commitments from non-domestic suppliers
- Commitments from all domestic suppliers
- Strengthening commitments on the timing and quality of final bills
- Introducing commitments on the timing and quality of opening bills

5.08 We note in particular that there do not appear to be current commitments around the opening bill. To address customers' concerns around a large opening bill arriving at an unknown period, suppliers could commit to issuing the bill in a standard billing time period e.g., if the customer is to be billed on a frequency defined in the customer contract then the gaining supplier should endeavour to meet this frequency for the opening bill.

5.1.4 Option 3b: Improving standards – regulation

5.09 Ofgem could seek to implement some or all of the measures set out in Option 3a as explicit obligations (for example in licences) or through incentives (for example through guaranteed standards of performance where compensation is payable to the consumer).

6. Next steps

6.01 We intend to discuss the billing issues and possible options for reform at the next COSEG meeting on 28 August 2013 and would therefore be grateful if you could consider the questions raised in this paper prior to that meeting.

6.02 In addition to the options noted above, we would welcome view on the following questions.

- (i) To what extent will smart meters resolve consumer concerns on erroneous final bills and resolving errors?

- (ii) Will smart metering allow suppliers to issue a final bill more quickly?
- (iii) Are there additional system issues to those noted above that would constrain suppliers' ability to issue opening and final bills promptly?
- (iv) To what extent is smart metering likely to have a positive impact on reducing outstanding credit balances on change of supply or are additional measures needed to ensure that any balances are repaid to customers quickly?