Office of Gas and Electricity Markets

The ICT Project

Improving Customer Transfers

in the domestic and designated energy markets

Project Charter

IMPROVING CUSTOMER TRANSFERS

PROJECT CHARTER

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1. Introduction

Domestic customers throughout Great Britain now have a choice of who supplies them with gas and electricity. The surveys undertaken for Ofgem by MORI indicate that the awareness of competition is very high, and that most switchers find the process painless.

However, the processes for transferring customers between suppliers are complex, which means that problems are often difficult and costly to diagnose and fix. When things do go wrong, the customer experience can be frustrating and even distressing. The complexity and opacity of transfer arrangements may also act as impediments to the development of competition, deterring new entrants and depriving customers of innovations in products and services.

Ofgem has initiated the Improving Customer Transfers (ICT) project to review the relevant processes and arrangements in the **domestic** gas and **designated** electricity markets. The project aims to understand current areas of weakness, to identify where improvements can be made, to assess whether the market infrastructure offers an appropriate framework, capable of supporting customer requirements in transferring between suppliers, and to make recommendations for improvements.

This Project Charter sets out:

- The background to this initiative.
- The objectives and scope of the project.
- Key deliverables of the project.
- A plan for communications with the industry and other projects.

2. Background

The customer transfer process is an essential ingredient in ensuring that supply competition works in the gas and electricity markets. Current processes have proved to be relatively robust: by the end of April 2000, over 11 million transfers had been undertaken, and the ex-monopoly companies no longer supply over 5.5 million domestic gas customers and 3.5 million designated electricity customers. However, Ofgem also received over 13,700 gas and 9,100 electricity transfer-related complaints during 1999.

Several areas of weakness have been identified that are intrinsic to the design of the customer transfer processes, and many suppliers have experienced problems in operating the processes. There are arguments that transfers take too long, that processes are overly complex, and that too much manual intervention is required.

2.1. The Customer Experience

One of the five recommendations made by the National Audit Office (NAO) in its report "Giving Customers a Choice – the introduction of competition into the domestic gas market (May 1999)" was 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 around five weeks to change supplier, and even longer where there were problems, or an objection to the transfer by the incumbent supplier.

The current transfer processes stem from complex industry agreements that were negotiated between all the relevant parties, including the Regulators. The basic design of these processes was established before the domestic and designated markets were opened to competition, and therefore drew on operational knowledge and experience purely from Industrial & Commercial (I&C) markets. Although the models have evolved over time in response both to areas of concern and to market developments, changes have been made in a piecemeal fashion. There has not yet been a root and branch review of the suitability of these processes for a modern, competitive retail market.

The domestic and designated markets for energy also reflect the constructs of the I&C market for customers – sales agents, contracts, termination notices, time taken to transfer. Arguably, they do not embody many of the customer-friendly features that are seen in an effective retail market – clear prices, instant access, little hassle in moving to a different supplier.

Domestic energy suppliers have compared their activities to selling insurance or mobile phones. These markets have responded to customer and competitive pressures, implementing considerable change, knowing that to attract customers suppliers must make their offer simpler and more reflective of customer needs. Ofgem wishes to identify whether there are inherent impediments to a similar pace of development in the domestic and designated energy markets.

Suppliers are increasingly marketing both gas and electricity products to customers, who will expect consistency between the two fuels. Whilst electricity and gas markets show significant similarities in the processes established to transfer customers, there are differences that do have an impact on the customer-facing arrangements.

Increasingly, gas and electricity supplies are just two of a range of branded products, as existing energy suppliers add to their product portfolios and new entrants extend their ranges with gas and electricity. The processes that are involved in transferring a customer to their chosen supplier will inevitably be compared with the best practices in other sectors,

and there is likely to be growing pressure to adopt more customer-friendly practices, particularly from new entrants to the sector.

2.2. Improving Effectiveness & Efficiency

There appears to be significant scope to improve the effectiveness and efficiency of the transfer processes and related operations, thereby reducing costs throughout the supply chain and providing further opportunities for price competition. However, many players have made substantial investment in the systems, organisations, procedures and contractual arrangements that are required to support the current customer transfer processes amongst other activities. There is likely to be significant resistance to change from some incumbent players, especially where their particular commercial future is unclear.

There may also be opportunities to reduce the extent of mandatory industry processes. This could allow individual players to re-engineer their own operations independently, without the constraints of conforming to less efficient industry practices that were developed for an industry at an early stage of evolution from monopoly to competition. It may also be possible to design a transitional approach that allows individual players to migrate to alternative customer transfer processes at any time over an extended period, rather than requiring an entire industry to change simultaneously.

Under the existing arrangements, the gas transportation and electricity distribution companies have responsibility for administration of the registration processes, and also provide support services, such as help desks for customers and suppliers, publication of industry data on CD Roms and web sites, and resolution of queries from various industry players. It is appropriate to assess the performance of the transportation and distribution companies in providing these services, against benchmarks from other sectors. Many other companies specialise in delivering such services and may offer enhanced services and superior performance at lower prices.

The quality of the industry data has proved to be a key factor in the experience of customers when transferring between suppliers. Deficiencies or errors in this data can lead to problems for suppliers and customers, including transfer delays, erroneous transfers and problems in generating first or final bills. There may be opportunities to improve the quality and completeness of meter point reference data, address data, meter read history and meter asset data. These could involve discrete exercises; enhancement of processes to ensure that accuracy is maintained; or clarification of responsibilities for accuracy and completeness of data. The project should review and extend the initiatives that are already underway in this area – such as the Address Completeness Project - and assess whether separate work in the gas and electricity markets should be aligned.

Benefits may also be obtained by co-ordinating with initiatives in other sectors, such as the introduction of common carriage in the water industry, and the development of the National Land & Property Gazetteer (NLPG). Co-ordination of activities related to the identification of supplied properties, quality of the associated data, and provision of support services to suppliers and customers could lead to substantial benefits and cost savings.

2.3. Management of Industry Change

Impediments to the development of competition may result from the way the industry governs itself. The existing industry arrangements for governance and change control may not be sufficiently dynamic to allow the market to respond effectively to the demands of competition and innovation.

The ICT project will consider whether the current industry structure is able to meet both supplier and customer needs, or whether a more concerted and co-ordinated action is required, facilitated by the regulator, to achieve the desired improvements to the customer transfer process and associated arrangements.

2.4. Co-ordination of Changes

The nature of the ICT project means that it has a wide scope and potential interactions with many other activities that involve changes to the infrastructure of the gas and electricity markets. Some of the improvements recommended by the ICT project may require licence amendments or fundamental changes to industry arrangements and Codes of Practice.

The ICT project will recognise policy initiatives being undertaken by other parts of Ofgem and the industry. In particular the project should encompass the establishment of competition in metering services; co-ordinate with the review of Network Code governance; and incorporate the elements of the Social Action Plan that address the need for disadvantaged groups to benefit from the competitive markets.

There is growing pressure for improvement in the customer transfer process, coming from both customer groups and suppliers themselves. This pressure is only likely to increase as new entrants challenge the existing arrangements and current players seek to increase their own efficiency to allow them to compete more effectively. Customer expectations are likely to become more demanding, especially when gas and electricity form part of a wide portfolio of bundled products offered by suppliers, which do not all have the particular constrictions of the energy infrastructure.

3. Project Objectives, Scope & Deliverables

The interconnected nature of the systems, operational and contractual infrastructures that support the gas and electricity industries mean that the ICT project has significant scope, as well as potential overlaps with many other activities and projects. Definition of clear objectives and management of scope are critical to ensure that the project can be completed effectively, but also to ensure that any recommendations are consistent with proposals for change in other areas.

3.1. Objectives

The objectives of the ICT Project are to.

- Identify current areas of weakness in the transfer processes and distinguish those that are due to systemic deficiencies from those that are only experienced by individual suppliers.
- Identify any fundamental issues related to the market infrastructure that detract from the customer experience of competition or act as impediments to the development of competition and innovation.
- Determine whether the infrastructure offers a framework for handling customer transfers between gas and electricity suppliers that is appropriate and comparable with other markets and products.
- Produce recommendations for changes that should improve existing arrangements, or provide better alternative arrangements for handling customer transfers.

3.2. Scope

The project will focus on processes associated with customer transfers within the domestic gas and designated electricity markets, and consider the arrangements that govern the operation of and management of changes to these processes.

The project will seek to co-ordinate with other projects and working groups to review how well the transfer processes meet the needs of other business activities, and assess the wider implications of alternative arrangements that are considered by the ICT project.

Specific activities to be undertaken under the remit of the ICT project will:

- Identify strengths and weaknesses of the current transfer processes and determine the impact of these.
- Review other comparable retail markets as potential models for effective customer transfers.
- Review the potential for alignment between gas and electricity processes and practices.
- Identify and review alternative arrangements for managing the transfer of customers to their chosen gas and electricity suppliers. This work will identify where improvements could be made to current arrangements, and evaluate the benefits that could be obtained through the alternative options that are identified.
- Review the impact of any proposed changes on other related markets, such as the I&C gas and non-designated electricity sectors.

- Consider the effectiveness of existing industry governance and change control mechanisms to understand whether there are impediments to effective competition.
- Review approaches to transition to new arrangements, assessing in particular the ability to accommodate asynchronous and gradual change. The ability of the governance arrangements to manage such change will also be considered.

3.3. Deliverables

The first major project deliverable will be a Consultation Document, due for publication in September 2000. This document should:

- Assess the deficiencies of the current customer transfer processes and associated arrangements and propose a case for change.
- Provide a credible and realistic set of recommendations for changes to the arrangements that could improve handling of customer transfers.
- Identify short, medium and long-term changes.
- Consider approaches to manage the transition to alternative transfer arrangements, if recommended. This should include assessments of the benefits, risks and impacts of the changes.
- Identify changes that would be needed to the legislative and contractual infrastructure, which could potentially include amendment of licences, codes of practice and industry agreements such as Network Codes and the Master Registration Agreement (MRA).

Depending on the recommendations included in the Consultation Document, there is likely to be a further period of consultation around changes to the customer transfer process and associated arrangements. It is expected that some of the recommended changes could be taken on and managed by existing industry governance arrangements.

Requirements for more fundamental changes are likely to be set out in a Decision Document, due for publication in the first quarter of 2001.

4. Communication Plan

This section details the plan for communication between the ICT Project, other parts of Ofgem and the various industry groups. These will be in addition to the interactions that are fundamental to the undertaking of the project itself.

4.1. Within Ofgem

The ICT Project will communicate with other parts of Ofgem through the following approaches:

- The ICT Project Team will actively seek the appropriate participation of members from related projects and activities, and provide internal briefings to all interested Ofgem staff.
- The ICT Project Team will arrange presentations on proposed changes or alternative models for the transfer of customers, and
- The Project Board will provide the Management Committee with regular updates on progress as well as briefings on the issues and proposals being considered.
- Consultation and Decision Documents will be circulated for comment before they are published.

4.2. With Industry Groups

The ICT Project fundamentally involves consultation and discussions with various industry participants, as well as organisations and individuals currently outside the gas and electricity retail markets. The following approaches will be used to support communications with the gas and electricity industry about the ICT Project, and promote participation in the project:

- The ICT Project Team will provide progress briefings to meetings of the DCFG and CMRG.
- ICT-specific industry forums will be held during the first stage of the project. The first forum in July will consider the pressures for change and the proposed approach to review current and alternative processes. A subsequent forum will present the findings of the project and preview the recommendations that are likely to be included in the Consultation Document.
- The ICT Project Team will seek structured input from industry players, and invite organisations on an individual basis to present and discuss their view of issues, process improvements, and approaches to manage changes.
- The ICT Project Team will seek and accept invitations from existing industry forums and working groups to provide briefings and hold discussions on the project.
- A Consultation Document will invite formal responses on the findings and recommendations of the project.